

REFERENCE TITLE: income tax credits; income threshold

State of Arizona  
House of Representatives  
Forty-ninth Legislature  
First Regular Session  
2009

## HB 2472

Introduced by  
Representatives Chabin: Ableser, Miranda B

### AN ACT

AMENDING SECTIONS 41-1517, 41-1518, 43-1071 AND 43-1074, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2001, CHAPTER 115, SECTION 19; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2008, CHAPTER 290, SECTION 2; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2008, CHAPTER 290, SECTION 4; AMENDING SECTIONS 43-1074.02, 43-1075, 43-1075.01, 43-1076, 43-1077, 43-1078, 43-1079, 43-1079.01, 43-1080, 43-1081, 43-1081.01, 43-1081.02, 43-1082, 43-1083, 43-1084, 43-1085, 43-1086, 43-1087, 43-1088, 43-1089, 43-1089.01, 43-1089.02, 43-1090 AND 43-1090.01, ARIZONA REVISED STATUTES; RELATING TO INDIVIDUAL INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 41-1517, Arizona Revised Statutes, is amended to  
3 read:

4 41-1517. Motion picture production tax incentives: duties:  
5 definitions

6 A. From and after December 31, 2005 through December 31, 2010, the  
7 department of commerce shall qualify motion picture production companies that  
8 produce one or more motion pictures in this state for motion picture  
9 production tax incentives, subject to the following requirements and  
10 conditions:

11 1. Except as provided in subsection K of this section, a motion  
12 picture production company must spend at least two hundred fifty thousand  
13 dollars toward production costs in this state producing each motion picture.

14 2. For the purpose of this section, production costs are limited to  
15 and subject to the following conditions:

16 (a) Salaries and other compensation for talent, management and labor  
17 paid to residents of this state, as defined by section 43-104.

18 (b) A story and scenario to be used for a motion picture.

19 (c) Set construction and operations, wardrobe, props, accessories and  
20 related services in this state. Expenses paid for construction contracts are  
21 limited to contractors who are licensed under title 32, chapter 10.

22 (d) Photography, sound synchronization, lighting and related costs  
23 incurred in this state.

24 (e) Editing and related services performed in this state.

25 (f) Rental of facilities and equipment in this state.

26 (g) Catered food, drink and condiment purchased in this state.

27 (h) Other direct in-state costs of producing the motion picture,  
28 pursuant to rules adopted by the department of revenue that follow generally  
29 accepted accounting standards for the motion picture industry.

30 (i) Payments for penalties and fines do not qualify as production  
31 costs.

32 (j) Expenses incurred before the date of notice of preapproval under  
33 subsection D of this section do not qualify as production costs.

34 3. A motion picture production company or its authorized payroll  
35 service company must employ residents of this state in its production  
36 activities as follows:

37 (a) In 2006, at least twenty-five per cent of full-time employees  
38 working in this state must be residents of this state.

39 (b) In 2007, at least thirty-five per cent of full-time employees  
40 working in this state must be residents of this state.

41 (c) In 2008 and every subsequent taxable year, at least fifty per cent  
42 of full-time employees working in this state must be residents of this state.

43 4. A motion picture production company must submit a completed  
44 application pursuant to subsection C of this section. An application is  
45 complete on receipt of all requested information.

1           5. A motion picture production company must include in the credits for  
2 each motion picture, other than a commercial advertisement or music video, an  
3 acknowledgement that the production was filmed in Arizona.

4           B. Only a motion picture production company that demonstrates that it  
5 has the lawful right to produce a particular production may apply for  
6 qualification under this section with respect to that production.

7           C. A motion picture production company initially applying for  
8 qualification under this section must report the following to the department  
9 of commerce on a form and in a manner prescribed by the department, with the  
10 cooperation of the department of revenue:

11           1. The name, address, telephone number and website of the motion  
12 picture production company.

13           2. The name and address of an individual who will maintain records of  
14 expenditures in this state.

15           3. The projected first preproduction date and last production date in  
16 this state.

17           4. The production office address and office telephone number in this  
18 state.

19           5. The estimated total budget of the production.

20           6. The estimated total expenditures in this state.

21           7. The estimated total percentage of the production taking place in  
22 this state.

23           8. The estimated level of employment of residents of this state in the  
24 cast and crew.

25           9. A script, including a synopsis, the proposed director and a  
26 preliminary list of the cast and producer, except that, with respect to a  
27 television series, other than a pilot production, in lieu of a script the  
28 applicant must include:

29           (a) A synopsis of the general nature of the series.

30           (b) A description of the characters and the intended nature of their  
31 interaction with each other.

32           (c) A description of the locations.

33           (d) A description of the sets.

34           (e) The intended distribution or broadcast medium with specific  
35 television channels, if known.

36           10. An affirmation signed by any person who will be credited on screen  
37 as the producer or producers of the motion picture, not including the  
38 executive producers, associate producers, assistant producers or line  
39 producers, that:

40           (a) The motion picture production company agrees to furnish records of  
41 expenditures in this state to the department of revenue on request.

42           (b) Any items purchased with a certificate issued under section  
43 42-5009, subsection H are intended for use by the applicant directly in  
44 motion picture production.

1 D. The department of commerce shall review all applications within  
2 thirty days after submission of a complete application pursuant to subsection  
3 C of this section to determine whether the motion picture production company  
4 satisfies all of the criteria provided in subsection A of this section and  
5 shall establish the process by which the department qualifies and preapproves  
6 a company for motion picture production tax incentives. This process shall  
7 preapprove a company for motion picture production tax incentives based on  
8 priority placement established by the date that such motion picture  
9 production company filed its initial application for qualification with the  
10 department.

11 E. The department of commerce may conduct a site visit to verify that  
12 production has begun. Within ninety days after the department preapproves  
13 the company's initial application, the company must submit notice to the  
14 department that production has begun and provide at least one of the  
15 following:

16 1. A copy of a contract, loan out agreement or deal memo with a  
17 cameraman and crew.

18 2. A copy of the crew call sheet for the first day of production.

19 3. Evidence that residents of this state have been paid a total of at  
20 least five thousand dollars for work on the preapproved motion picture.

21 4. A copy of a contract or agreement directly attributable to the  
22 preapproved motion picture.

23 F. Preapproval by the department of commerce under subsection D of  
24 this section lapses, the application is void and the amount of the  
25 preapproved incentives does not apply against the dollar limit prescribed by  
26 subsection J of this section if, within ninety days after the department  
27 preapproves the company, the company fails to provide documentation of  
28 either:

29 1. Its expenditure in this state of the lesser of:

30 (a) Ten per cent of the estimated total state budget of the  
31 production.

32 (b) Two hundred fifty thousand dollars.

33 2. A completion bond, equal to the estimated total budget of the  
34 production, for the production of the motion picture for which the company  
35 was preapproved. For the purposes of this paragraph, "completion bond" means  
36 an executed written contract, issued by an insurance company with an  
37 insurance industry rating of B+ or better by A.M. Best company guarantying to  
38 the financiers of the project that it will be completed according to the  
39 terms of the preapproved application submitted by the production company in  
40 its application.

41 G. The preapproved amount applies against the dollar limit prescribed  
42 by subsection J of this section for the year in which the application was  
43 submitted regardless of whether the initial preapproval period extends into  
44 the following year or years. Before the expiration of the initial

1 preapproval or requalification period, a company may voluntarily relinquish  
2 unused credit amounts.

3 H. The department of commerce shall reallocate the amount of credits  
4 that is voluntarily relinquished under subsection G of this section, that  
5 lapses under subsection F of this section or that lapses under subsection O  
6 of this section. The reallocation shall be to other motion picture  
7 production companies that applied in the original credit year based on  
8 priority placement. The amount of the reallocated credits shall continue to  
9 apply against the dollar limit of the original credit year regardless of the  
10 year in which the reallocation occurs. If for any year an unused balance  
11 occurs in the income tax credits authorized under the dollar limit prescribed  
12 by subsection J of this section:

13 1. The balance shall be allocated to motion picture production  
14 companies that successfully appeal the denial of approval under this section  
15 or section 41-1517.01. Any amount of income tax credits due to successful  
16 appeals that are not paid from an unused balance in any year shall be paid  
17 against the dollar limit allowed by subsection J of this section in the  
18 following year.

19 2. Any remaining unused balance shall be reallocated for the purposes  
20 of this section in the following year.

21 I. Beginning with the tax credits allocated for 2006 pursuant to  
22 subsection J of this section, an approved credit offsets tax liability for  
23 the taxable year for which the credit was originally allocated or any  
24 subsequent taxable year within the applicable carryforward period pursuant to  
25 section 43-1075, subsection ~~G~~ H or section 43-1163, subsection G. The  
26 credits must be claimed on a timely filed original income tax return,  
27 including extensions.

28 J. Subject to the requirements of section 41-1517.01 and subsections K  
29 and U of this section, the department of commerce shall not preapprove income  
30 tax credits exceeding a total of:

- 31 1. Thirty million dollars for 2006.
- 32 2. Forty million dollars for 2007.
- 33 3. Fifty million dollars for 2008.
- 34 4. Sixty million dollars for 2009.
- 35 5. From and after December 31, 2009, seventy million dollars for a  
36 single year.
- 37 6. Five million dollars for an individual motion picture application  
38 in 2007.
- 39 7. Seven million dollars for an individual motion picture application  
40 in 2008.
- 41 8. Eight million dollars for an individual motion picture application  
42 in 2009.
- 43 9. From and after December 31, 2009, nine million dollars for an  
44 individual motion picture application.

1 K. Beginning in 2008, the following provisions apply with respect to  
2 commercial advertisement and music video production:

3 1. Five per cent of the maximum dollar amount of income tax credits  
4 prescribed for any year by subsection J of this section is reserved for use  
5 with respect to commercial advertisement and music video production.

6 2. A commercial advertisement or music video production company may  
7 apply for qualification under subsection C of this section before the company  
8 reaches the minimum expenditure threshold requirements of subsection A,  
9 paragraph 1 of this section.

10 3. In lieu of a script under subsection C, paragraph 9 of this  
11 section, the applicant must submit a synopsis or storyboard that:

12 (a) Identifies the product, service, person or event for a commercial  
13 advertisement or the artist and song for a music video.

14 (b) Describes the general content or message to be conveyed.

15 (c) Describes the location or locations.

16 (d) Describes the sets.

17 (e) Describes the intended distribution or medium and specific  
18 channels, if known.

19 4. The department must review the completed application within fifteen  
20 business days.

21 5. Expenses incurred before the date of submission of a completed  
22 application under subsection C of this section do not qualify as production  
23 costs.

24 6. The department shall allocate the income tax credit incentives  
25 based on priority placement established by the date that the company files  
26 its application and based on the percentage of estimated total expenditures  
27 in this state allowed as a credit under section 43-1075 or 43-1163.

28 7. Within sixty days after applying with the department under  
29 subsection C of this section, a company that is preapproved for a specific  
30 production must notify and provide documentation of expenditures to the  
31 department of the total amount of eligible production costs associated with  
32 the production.

33 8. The company is not eligible for income tax credit incentives until  
34 the company's eligible production expenditures reach two hundred fifty  
35 thousand dollars in a period of twelve consecutive months. When the company  
36 reaches that threshold, the company may apply to the department for approval  
37 of the income tax credit incentives pursuant to subsection O of this section.  
38 Applications for approval of income tax credit incentives may not be  
39 submitted by the same company more frequently than once a calendar month.

40 9. Notwithstanding any other provision of this section, the department  
41 of commerce shall adopt rules and prescribe forms and procedures as necessary  
42 for the purposes of this subsection.

43 L. Except for applications with respect to commercial advertisement  
44 and music video production under subsection K of this section, after October  
45 31 of each year, if the department has preapproved the maximum calendar year

1 tax credit amount pursuant to subsection J of this section, the department  
2 may accept initial applications for the next calendar year. The preapproval  
3 of any application pursuant to this subsection shall not be effective prior  
4 to the first business day of the following calendar year. The department may  
5 accept initial applications with respect to commercial advertisement and  
6 music video production under subsection K of this section only during the  
7 calendar year in which the credits would be allotted.

8 M. Subject to subsection O of this section, the department of commerce  
9 shall deny an application submitted on completion of the production pursuant  
10 to subsection O of this section if it determines that:

11 1. The motion picture production company does not meet all of the  
12 established criteria provided in subsection A of this section.

13 2. The production would constitute an obscene motion picture film or  
14 obscene pictorial publication under title 12, chapter 7, article 1.1.

15 3. The production depicts sexual activity as defined in title 13,  
16 chapter 35.

17 4. The production would constitute sexual exploitation of a minor or  
18 commercial sexual exploitation of a minor under title 13, chapter 35.1.

19 N. On a determination by the department of commerce that a motion  
20 picture production company qualifies for motion picture production tax  
21 incentives, the department shall issue the company a written letter of  
22 qualification and transmit a copy of the letter to the department of revenue.  
23 Beginning from and after December 31, 2007, a letter of qualification is  
24 effective for twenty-four consecutive months as stated in the letter.

25 O. Upon completion of the motion picture production, a motion picture  
26 production company that qualifies for the motion picture tax incentives shall  
27 apply to the department in writing for approval of income tax credits, submit  
28 a viewable copy of the motion picture, except as provided in subsection P of  
29 this section, and certify the total amount of eligible production costs  
30 associated with the project incurred from and after December 31, 2005. From  
31 and after June 30, 2006, the department shall provide approval to a motion  
32 picture production company that it has met the eligibility requirements of  
33 this section and shall notify the department of revenue that the motion  
34 picture production company may claim the tax credits pursuant to sections  
35 43-1075 and 43-1163. If the eligible production costs actually spent are  
36 less than the amount preapproved for income tax credits, the preapproved  
37 amount not incurred lapses and does not apply against the dollar limit  
38 prescribed by subsection J of this section for that year.

39 P. A motion picture production company may apply for postapproval of  
40 the production under subsection O of this section before a viewable copy of  
41 the production is available. To do so, the company must submit with its  
42 application a letter of credit, payable to the department of revenue,  
43 providing that within two business days after the issuer receives a written  
44 determination from the department of commerce that the production fails to  
45 qualify for the tax credits the issuer will pay to the department of revenue

1 the full face value of the income tax credits in the application. If the  
2 department of revenue draws on the letter of credit, the monies shall be  
3 transferred to and held in an interest bearing account pending the final  
4 outcome of an appeal, if any. The letter of credit may be released on the  
5 determination by the department of commerce that the completed production  
6 qualifies for the tax credits.

7 Q. If a preapproved motion picture production company fails to  
8 undertake production, as described in subsection F of this section, and also  
9 fails to voluntarily relinquish the unused credit amounts for reallocation by  
10 the department as provided by subsection G of this section within the  
11 ninety-day period, the company and all persons signing the application for  
12 preapproval are disqualified from receiving, or participating in any motion  
13 picture production company that applies for or receives, tax incentives  
14 pursuant to this section for three years after the original application.

15 R. The department of commerce, with the cooperation of the department  
16 of revenue, shall adopt rules and publish and prescribe forms and procedures  
17 as necessary to effectuate the purposes of this section.

18 S. Any information gathered from motion picture production companies  
19 for the purposes of this section, or applicants for infrastructure incentives  
20 for the purposes of section 41-1517.01, shall be considered confidential  
21 taxpayer information and shall be disclosed only as provided in section  
22 42-2003, subsection B, paragraph 12, except that the department shall publish  
23 the following information in its annual report:

24 1. The name of each motion picture production company and  
25 infrastructure applicant and the amount of income tax credits preapproved for  
26 each production and infrastructure project.

27 2. The amount of credits approved with respect to each production.

28 T. The department of commerce shall:

29 1. Keep annual records of the information provided on applications for  
30 motion picture production tax incentives. These records shall reflect a  
31 percentage comparison of the annual amount of monies exempted or credited to  
32 qualifying motion picture production companies to the estimated amount of  
33 monies spent on in-state production costs by motion picture production  
34 companies.

35 2. Maintain annual data on growth in Arizona-based motion picture  
36 industry companies and motion picture industry employment and wages.

37 3. Not later than April 30 of each year, prepare and publish a report  
38 summarizing the information collected pursuant to this subsection. The  
39 department shall make copies of the annual report available to the public on  
40 request.

41 U. Subject to annual legislative authorization, the amount of three  
42 hundred thirty seven thousand seven hundred dollars from the dollar amount of  
43 income tax credits under subsection J of this section is allocated each year  
44 to the department of commerce for up to six full-time equivalent positions  
45 dedicated solely for the purposes of this section and section 41-1517.01. If



1 the income tax credits terminate pursuant to subsection A of this section and  
2 section 41-1517.01, subsection A, the authorization under this subsection and  
3 any positions dedicated for those purposes also terminate.

4 V. For the purposes of this section:

5 1. "Commercial advertisement" means an advertising message designed  
6 for delivery through either:

7 (a) A motion picture film or video medium to attract the attention of  
8 consumers or influence consumers' feelings toward a particular product,  
9 service, event or cause.

10 (b) Still photography that is used in national or international print  
11 media to attract the attention of consumers or influence consumers' feelings  
12 toward a particular product, service event or cause.

13 2. "Motion picture" means a single medium or multimedia program,  
14 including a commercial advertisement, music video or television series, that:

15 (a) Is created by production activities conducted in whole or in part  
16 in this state.

17 (b) Can be viewed or reproduced.

18 (c) Is intended for commercial distribution or licensing in the  
19 delivery medium used.

20 Motion picture does not include any production featuring actual news, current  
21 events, weather, locally produced and locally broadcast television  
22 productions, financial market reports, concerts, Internet broadcasts, talk  
23 shows and interviews, game shows, sporting events, award or other gala  
24 events, a production whose sole purpose is fund-raising, a production used  
25 for corporate or organizational training or in-house corporate advertising or  
26 other similar production activities.

27 3. "Motion picture production company" or "production company" means  
28 any person primarily engaged in the business of producing motion pictures and  
29 that has a physical business office and bank account in this state.

30 4. "Motion picture production tax incentives" means the tax deductions  
31 for transaction privilege and use taxes listed in section 42-5009, subsection  
32 H and the credit against income taxes provided under section 43-1075 or  
33 43-1163.

34 5. "Music video" means a filmed or videotaped rendition of a song or  
35 songs, portraying musicians performing the song or other visual images set to  
36 the lyrics of the song.

37 6. "Television series" means a group of productions that is created or  
38 adapted for television broadcast with a common series title, that is related  
39 to each other in subject or theme, that is produced seasonally for appearing  
40 at scheduled intervals, but subject to discretionary programming and  
41 scheduling decisions, and with or without a predetermined number of episodes.  
42 Television series includes a pilot production for the promotion or  
43 introduction of a television series.

Sec. 2. Section 41-1518, Arizona Revised Statutes, is amended to read:

41-1518. Capital investment incentives; evaluation; certification; definitions

A. Beginning July 1, 2006, the department of commerce shall receive and evaluate applications that are submitted by qualified investors to receive a tax credit pursuant to section 43-1074.02 for qualified investments made in a qualified small business and certify to the department of revenue the names, amounts and other relevant information relating to the applicants.

B. To be eligible for a tax credit pursuant to this section and section 43-1074.02, a qualified investor shall file an application with the department of commerce within thirty days after making a qualified investment. The application, on a form prescribed by the department of commerce, shall include:

1. The name, address and federal income tax identification number of the applicant.

2. The name and federal employer identification number of the qualified small business that received a qualified investment made by the applicant.

3. The date the qualified investment was made.

4. Any additional information that the department of commerce requires.

C. As part of the application, the applicant and the qualified small business that receives the investment shall each provide written authorization pursuant to section 42-2003 designating the department of commerce as eligible to receive tax information from the department of revenue for the purpose of determining if any misrepresentations exist on the application. The authorization shall limit disclosure to income tax information for the latest two years for which returns were filed with the department of revenue preceding the date the application is filed and for all tax years through the year in which the investment was made for which a return was not filed as of the date of the application. The applicant shall also provide in the written authorization income tax information for all tax years in which the applicant could claim or carry forward the credit pursuant to this section, but limited to the tax years in which the applicant actually claims a credit or carries forward a credit on a return filed with the department of revenue. An applicant who has an individual ownership interest as a co-owner of a business who may be entitled to a pro rata share of the credit pursuant to section 43-1074.02, subsection ~~E~~ F shall provide a written authorization with content similar to the authorization, and in the same manner as, any other applicant is required to provide.

D. The department of commerce shall review and make a determination with respect to each application within ninety days after receiving the application. The department of commerce may request additional information from the applicant in order to make an informed decision regarding the eligibility of the qualified investor or qualified small business.

1           E. Subject to subsection F of this section, the department of commerce  
2 shall authorize tax credits for each qualified investor who makes a qualified  
3 investment in a qualified small business. The amount of the credit shall be:

4           1. If the qualified investment is made in a qualified small business  
5 that maintains its principal place of business in a rural county of this  
6 state or is a bioscience enterprise, twelve per cent of the amount of the  
7 investment per year for the first and second taxable years after the  
8 investment is made and eleven per cent of the amount of the investment for  
9 the third taxable year after the year in which the investment is made.

10          2. If the qualified investment is made in a qualified small business  
11 other than a business described in paragraph 1 of this subsection, ten per  
12 cent of the amount of the investment for each of the three taxable years  
13 after the year in which the investment is made.

14           F. The department of commerce shall not authorize tax credits under  
15 this section after June 30, 2011. The department of commerce shall not  
16 certify tax credits under this section exceeding twenty million dollars. Tax  
17 credits that expire after certification or that are otherwise not timely used  
18 by the qualified investor for whom they were originally authorized shall be  
19 included in the twenty million dollar limitation. If qualifying applications  
20 exceed twenty million dollars, the department of commerce shall authorize  
21 credits in the order of the date and time that the applications are received  
22 by the department of commerce, as evidenced by the time and date stamped on  
23 the application when received by the department. All applications shall be  
24 filed in person at the department of commerce. If an application is received  
25 that, if authorized, would require the department of commerce to exceed the  
26 twenty million dollar limit, the department of commerce shall only grant the  
27 applicant the remaining amount of tax credits that would not exceed the  
28 twenty million dollar limit. After the department of commerce authorizes  
29 twenty million dollars in tax credits, the department of commerce shall deny  
30 any subsequent applications that are received. The department of commerce  
31 shall certify to the qualified investor and to the department of revenue the  
32 amount of the tax credit that is authorized for purposes of section  
33 43-1074.02 for each taxable year described in subsection E of this section.

34           G. The total of all qualified investments in any calendar year by a  
35 qualified investor and its affiliates in qualified small businesses that are  
36 eligible for a tax credit pursuant to this section and section 43-1074.02  
37 shall not exceed two hundred fifty thousand dollars. The maximum amount of  
38 qualified investments in a single qualified small business for which the  
39 department of commerce may authorize tax credits under this section shall not  
40 exceed an aggregate of two million dollars in investments for all taxable  
41 years. If applications for tax credits are received for investments that  
42 exceed the limits prescribed by this subsection for any qualified small  
43 business, the department of commerce shall authorize credits in the order of  
44 the date and time that the applications are received by the department of  
45 commerce. If an application is received that, if authorized, would require

1 the department of commerce to authorize tax credits for any investment in a  
2 qualified small business that would cause the total qualified investments in  
3 the business to exceed the limits prescribed by this subsection, the  
4 department of commerce shall only grant the applicant the remaining amount of  
5 tax credits that would not exceed the limits prescribed by this subsection.

6 H. The qualified investor shall file a return claiming the tax credit  
7 with the department of revenue for application against income tax pursuant to  
8 section 43-1074.02 by the due date of the return, including extensions, for  
9 the tax year in which the credit is available. If the qualified investor  
10 fails to timely file a return claiming the credit for a taxable year, the  
11 credit expires for that taxable year and there shall be no carryforward of  
12 the expired credit. If a qualified investor includes co-owners of a business  
13 who qualify for individual pro rata shares of the credit pursuant to section  
14 43-1074.02, subsection ~~E~~ F, each individual owner shall file a return  
15 claiming the tax credit with the department of revenue by the due date of the  
16 return, including extensions, for the tax year in which the credit is  
17 available. If an individual co-owner fails to timely file a return claiming  
18 the credit for a taxable year, the credit expires for that taxable year and  
19 there shall be no carryforward of the expired credit. Credits that expire or  
20 that otherwise are not timely used by the qualified investor or by the  
21 individual co-owner of a business for whom the credits were originally  
22 authorized shall not be reissued.

23 I. On receiving an application for a tax credit from a qualified  
24 investor, or a written request for certification as a qualified small  
25 business from a corporation, limited liability company, partnership or other  
26 business entity, the department of commerce shall determine whether the  
27 corporation, limited liability company, partnership or other business entity  
28 that is named in the application or written request is a qualified small  
29 business. The department of commerce shall determine if the business is a  
30 bioscience enterprise and if the business maintains its principal place of  
31 business in a rural county in this state. After determining the  
32 qualifications, the department of commerce shall certify the qualified small  
33 business as being eligible to receive qualified investments for purposes of  
34 this section. The certification is valid for one year, but the department of  
35 commerce may revoke the certification at any time or refuse to renew the  
36 certification if the business fails to maintain the required qualifications.  
37 If a qualified small business fails to maintain the qualifications, the  
38 business shall notify the department of commerce within five business days of  
39 failing to meet the qualifications. The department of commerce shall revoke  
40 the certification of the business and may assess a penalty against the  
41 business entity equal to the amount of the tax credits authorized after the  
42 business failed to meet the qualifications. The penalty shall be deposited  
43 into the state general fund. If the certification is revoked or expires,  
44 subsequent investments in the business do not qualify for a tax credit  
45 pursuant to this section and section 43-1074.02. All tax credits that are

1 issued before any expiration or revocation of the certification shall remain  
2 valid. Any application for a tax credit shall not be denied on the basis of  
3 the expiration or revocation of the certification if the investment was made  
4 before the date of the expiration or revocation.

5 J. The department of commerce shall provide to the department of  
6 revenue necessary information required to administer this section and section  
7 43-1074.02. If the department of commerce subsequently discovers that an  
8 applicant who received a tax credit misrepresented information on the  
9 application, the department of commerce shall immediately notify the  
10 department of revenue and provide the department of revenue all information  
11 that relates to that applicant. If the department of revenue determines that  
12 there has been a misrepresentation on the application, the department of  
13 revenue shall deny the credit if the misrepresentation relates to whether the  
14 applicant was a qualified investor or made a qualified investment. If the  
15 misrepresentation relates to whether the investment was made to:

16 1. A qualified small business, the department of revenue shall deny  
17 the credit only if the applicant knew or should have known at any time before  
18 the certification that the representation was false.

19 2. A bioscience enterprise or a business that maintains its principal  
20 place of business in a rural county in this state, the department of revenue  
21 shall decrease the amount of the credit that would have been allowed under  
22 subsection E, paragraph 1 of this section to the amount allowed under  
23 subsection E, paragraph 2 of this section only if the applicant knew or  
24 should have known at any time before the certification that the  
25 representation was false.

26 K. For the purposes of this section:

27 1. "Affiliate" means any person or entity that controls, that is  
28 controlled by or that is under common control with another person or entity.  
29 For the purposes of this paragraph, "control" means the power to determine  
30 the policies of an entity whether through ownership of voting securities, by  
31 contract or otherwise.

32 2. "Asset" means any owned property that has value including financial  
33 assets and physical assets. Intellectual property shall not be included when  
34 determining total assets.

35 3. "Bioscience enterprise" means a business whose activity is related  
36 to bioscience as determined by the department of commerce or any corporation,  
37 partnership, limited liability company or other business entity that is  
38 primarily engaged in a business that conducts research, development,  
39 manufacture, marketing, sale and licensing of products, services and  
40 solutions relating to either of the following:

41 (a) Medical, pharmaceutical, nutraceutical, bioengineering,  
42 biomechanical, bioinformatics or other life-science based applications.

43 (b) Applications of modern biological, bioengineering, biomechanical  
44 or bioinformatics technologies in the fields of human, plant or animal  
45 health, agriculture, defense, homeland security or the environment.

1           4. "Qualified investment" means an investment in an equity security  
2 that meets all of the following requirements:

3           (a) The equity security shall be common stock, preferred stock, an  
4 interest in a partnership or limited liability company, a security that is  
5 convertible into an equity security or ANY other equity security as  
6 determined by the department of commerce.

7           (b) The investment shall be at least twenty-five thousand dollars.

8           (c) The qualified investor and its affiliates do not hold, of record  
9 or beneficially, immediately before making an investment, equity securities  
10 possessing more than thirty per cent of the total voting power of all equity  
11 securities of the qualified small business.

12          5. "Qualified investor" means an individual, limited liability  
13 company, partnership, S corporation as defined in section 1361 of the  
14 internal revenue code or other business entity that makes a qualified  
15 investment in a qualified small business. Qualified investor does not mean a  
16 corporation that is subject to tax under title 43, chapter 11.

17          6. "Qualified small business" means a corporation, limited liability  
18 company, partnership or other business entity that:

19           (a) Maintains at least a portion of its operations at an office or  
20 manufacturing or research facility located in this state.

21           (b) Has at least two principal full-time equivalent employees who are  
22 residents in this state. For the purposes of this subdivision, "principal"  
23 means a person whose sole responsibility is not administrative.

24           (c) Does not have a principal business involving any of the following:

25           (i) Sales or distribution of retail goods or food or restaurant  
26 services.

27           (ii) Development, sale, leasing, rental or operation of, or investment  
28 in, real estate.

29           (iii) Providing professional services, except for professional  
30 services for COMPUTER hardware or software licensed or sold by the provider  
31 of such services.

32           (iv) Providing health care services to patients, except for services  
33 provided in connection with research, development, clinical trials and  
34 marketing activities by bioscience enterprises.

35           (v) Providing banking, brokerage, insurance or other financial or  
36 investment services.

37           (vi) Providing personal services.

38           (vii) Operating mining, forestry and other natural resource  
39 exploitation or extraction businesses, except for research and development in  
40 these businesses.

41           (viii) Agricultural operations, except for research and development in  
42 these businesses.

43           (ix) Operating an investment company or fund.

44           (x) Any other business activity that the department of commerce  
45 determines by rule to be unsuited to fulfill the purposes of this section.

1 (d) Does not engage in any activities that involve human cloning or  
2 embryonic stem cell research.

3 (e) Has total assets not exceeding two million dollars, excluding any  
4 investment made under this section.

5 (f) Has not exceeded the limitation on qualified investments  
6 prescribed by subsection G of this section.

7 7. "Rural county" means a county that has a population of four hundred  
8 thousand or fewer persons.

9 Sec. 3. Section 43-1071, Arizona Revised Statutes, is amended to read:

10 43-1071. Credit for income taxes paid to other states;  
11 definitions

12 A. Subject to the following conditions, residents shall be allowed a  
13 credit against the taxes imposed by this chapter for net income taxes imposed  
14 by and paid to another state or country on income taxable under this chapter:

15 1. The credit shall be allowed only for taxes paid to the other state  
16 or country on income that is derived from sources within that state or  
17 country and that is taxable under its laws irrespective of the residence or  
18 domicile of the recipient.

19 2. The credit shall not be allowed if the other state or country  
20 allows residents of this state a credit against the taxes imposed by that  
21 state or country for taxes paid or payable under this chapter.

22 3. The credit shall not exceed the proportion of the tax payable under  
23 this chapter as the income subject to tax in the other state or country and  
24 also taxable under this title bears to the taxpayer's entire income on which  
25 the tax is imposed by this chapter.

26 4. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
27 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

28 B. If any taxes paid to another state or country for which a taxpayer  
29 has been allowed a credit under this section are at any time credited or  
30 refunded to the taxpayer:

31 1. The taxpayer shall immediately report that fact to the department.

32 2. A tax equal to the credit allowed for the taxes credited or  
33 refunded by the other state or country is due and payable from the taxpayer  
34 on notice and demand from the department.

35 3. Interest shall be added to and collected as a part of the tax at  
36 the rate determined pursuant to section 42-1123 from the date the credit was  
37 allowed under this chapter to the date of the notice and demand.

38 4. If the tax and interest are not paid within ten days from the date  
39 of notice and demand, there shall be collected as a part of the tax interest  
40 on the unpaid amount of tax and interest at the rate of twelve per cent a  
41 year from the date of the notice and demand until the amount is paid.

42 C. The credit against the taxes imposed by this chapter for net income  
43 taxes paid to another state or country shall not be allowed to any taxpayer  
44 or any class of taxpayers if the allowances of the credit will result in any

1 invalid or illegal discrimination against another taxpayer or another class  
2 of taxpayers.

3 D. For taxable years beginning on or after January 1, 2002 and subject  
4 to the following conditions, a resident of this state, who is also considered  
5 to be a resident of another state under the laws of the other state, is  
6 allowed a credit against the taxes imposed by this title for net income taxes  
7 imposed by and paid to that state on income taxable under this title as  
8 follows:

9 1. The credit is allowed only if the other state taxes the income to  
10 the resident of this state and does not allow the taxpayer a credit against  
11 taxes imposed by that state on that income for taxes paid or payable on that  
12 income under this title.

13 2. The credit is allowed only for the proportion of the taxes paid to  
14 the other state as the income taxable under this title and also subject to  
15 tax in the other state bears to the entire income on which the taxes paid to  
16 the other state are imposed.

17 3. The credit may not exceed the proportion of the tax payable under  
18 this title as the income taxable under this title and also subject to tax in  
19 the other state bears to the entire income taxable under this title.

20 4. For the purpose of the credit allowed under this subsection,  
21 "income taxable under this title and also subject to tax in the other state"  
22 means income that would be sourced to the other state if the other state were  
23 imposing its income tax on the taxpayer as if the taxpayer was a nonresident  
24 of that other state.

25 E. For the purposes of this section, net income taxes imposed by  
26 another country include taxes that qualify for a credit under sections 901  
27 and 903 of the internal revenue code and the regulations under those  
28 sections.

29 F. For the purposes of this section:

30 1. "Entire income on which the other state's or country's tax is  
31 imposed" means the other state's or country's income computed under the  
32 equivalent of section 43-1094 but does not include any exemption allowable  
33 under the equivalent of section 43-1023.

34 2. "Entire income on which the tax is imposed by this chapter" means  
35 Arizona adjusted gross income as defined and computed under section 43-1001  
36 but does not include any exemption allowed under section 43-1023.

37 3. "Income subject to tax in the other state or country and also  
38 taxable under this title" means the portion of income that is included in  
39 entire income on which the tax is imposed ~~under~~ BY this chapter that is also  
40 included in the entire income on which the other state's or country's tax is  
41 imposed. The taxpayer shall increase or reduce the portion of income that is  
42 included in the entire income on which THE tax is imposed ~~under~~ BY this  
43 chapter by any related additions under section 43-1021 and by any related  
44 subtractions under section 43-1022. The taxpayer shall increase or reduce  
45 the portion of income that is included in the entire income on which the



1 other state's or country's tax is imposed by any related additions and  
2 subtractions under the other state's equivalent of sections 43-1021 and  
3 43-1022, as applicable.

4 4. "Tax payable under this chapter" means the income tax imposed by  
5 this state on the taxpayer's taxable income as defined under section 43-1001  
6 minus all of the following:

7 (a) The reduction amount received under section 16-954, subsection A.

8 (b) Any tax credit amount claimed under section 16-954, subsection B.

9 (c) Any tax credit amount claimed for the taxable year under this  
10 article but not including the credit amount allowed under this section.

11 Sec. 4. Section 43-1074, Arizona Revised Statutes, is amended to read:

12 43-1074. Credit for increased employment in enterprise zones;  
13 definitions

14 A. A credit is allowed against the taxes imposed by this title for net  
15 increases in qualified employment positions of residents of this state by a  
16 business located in an enterprise zone established under title 41, chapter  
17 10, article 2, except employment positions at a zone location where more than  
18 ten per cent of the business conducted at the location consists of retail  
19 sales of tangible personal property, measured by either the number of  
20 employees assigned to retail sales or the square footage of the facility used  
21 for retail sales activities at the location in the zone. Retail sales and  
22 retail sales activities do not include:

23 1. Food and beverage for consumption on the premises solely by  
24 employees and occasional guests of employees at the location.

25 2. Promotional products not available for sale and displaying the  
26 company logo or trademark.

27 3. Products sold to company employees.

28 **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
29 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

30 ~~B.~~ C. Subject to subsection ~~E~~ F of this section, the amount of the  
31 credit is equal to:

32 1. One-fourth of the taxable wages paid to an employee in a qualified  
33 employment position, not to exceed five hundred dollars, in the first year or  
34 partial year of employment.

35 2. One-third of the taxable wages paid to an employee in a qualified  
36 employment position, not to exceed one thousand dollars per qualified  
37 employment position, in the second year of continuous employment.

38 3. One-half of the taxable wages paid to an employee in a qualified  
39 employment position, not to exceed one thousand five hundred dollars per  
40 qualified employment position, in the third year of continuous employment.

41 ~~C.~~ D. To qualify for a credit under this section:

42 1. All of the employees with respect to whom a credit is claimed must  
43 reside in this state.

44 2. Thirty-five per cent of the employees with respect to whom a credit  
45 is claimed for the first year of employment must reside on the date of

1 employment in an enterprise zone that is located in the same county in which  
2 the business is located. If an employee for whom a credit was allowed in the  
3 first year of employment leaves employment during the second or third year,  
4 the taxpayer may substitute another employee who meets the requirements of  
5 paragraph 3 of this subsection and who was hired during the same year as the  
6 original employee. If the original employee was counted toward the residency  
7 requirement under this paragraph, the substitute employee must also have  
8 resided in a zone at the time the substitute was hired.

9 3. A qualified employment position must meet all of the following  
10 requirements:

11 (a) The position must be a minimum of one thousand seven hundred fifty  
12 hours per year of full-time and permanent employment.

13 (b) The job duties must be performed primarily at the zone locations  
14 of the business. If an eligible employee in a qualified employment position  
15 is transferred or assigned to work in the taxpayer's workplace at a different  
16 location that is also located in an enterprise zone and qualifies as a zone  
17 location, it may be considered to be continuous employment if it continues to  
18 meet all qualified employment position requirements.

19 (c) The employment must include health insurance coverage for the  
20 employee for which the employer pays at least fifty per cent of the premium  
21 or membership cost. If the taxpayer is self-insured, the taxpayer must pay  
22 at least fifty per cent of a predetermined fixed cost per employee for an  
23 insurance program that is payable whether or not the employee has filed  
24 claims.

25 (d) The employer must pay compensation at least equal to the wage  
26 offer by county as computed annually by the department of economic security  
27 research administration division.

28 (e) The employee must have been employed for at least ninety days  
29 during the first taxable year. An employee who is hired during the last  
30 ninety days of the taxable year shall be considered a new employee during the  
31 next taxable year. A qualified employment position that is filled during the  
32 last ninety days of the taxable year is considered to be a new qualified  
33 employment position for the next taxable year.

34 (f) The employee must not have been previously employed by the  
35 taxpayer within twelve months before the current date of hire.

36 ~~D.~~ E. A credit is allowed for employment in the second and third year  
37 only for qualified employment positions for which a credit was allowed and  
38 claimed by the taxpayer on the original first and second year tax returns.  
39 For the purposes of this subsection, the requirement to claim the credit on  
40 the original tax return does not apply to qualified employment positions  
41 created before January 1, 2002 and ~~were~~ certified to the department of  
42 commerce.

43 ~~E.~~ F. The net increase in the number of qualified employment  
44 positions is the lesser of the total number of filled qualified employment  
45 positions created in the zone during the tax year or the difference between

1 the average number of full-time employees in the zone in the current tax year  
 2 and the average number of full-time employees during the immediately  
 3 preceding taxable year. The net increase in the number of qualified  
 4 employment positions computed under this subsection shall not exceed two  
 5 hundred qualified employment positions per taxpayer each year.

6 ~~F.~~ G. A taxpayer who claims a credit under section 43-1077 or 43-1079  
 7 shall not claim a credit under this section with respect to the same  
 8 employees.

9 ~~G.~~ H. If the allowable tax credit exceeds the income taxes otherwise  
 10 due on the claimant's income, or if there are no state income taxes due on  
 11 the claimant's income, the amount of the claim not used as an offset against  
 12 income taxes may be carried forward as a tax credit against subsequent  
 13 taxable years' income tax liability, not to exceed five taxable years,  
 14 provided the business remains in an enterprise zone.

15 ~~H.~~ I. Co-owners of a business, including partners in a partnership  
 16 and shareholders of an S corporation, as defined in section 1361 of the  
 17 internal revenue code, may each claim only the pro rata share of the credit  
 18 allowed under this section based on the ownership interest. The total of the  
 19 credits allowed all such owners of the business may not exceed the amount  
 20 that would have been allowed for a sole owner of the business.

21 ~~I.~~ J. If a person purchases a business in a zone or changes ownership  
 22 through reorganization, stock purchase or merger, the new taxpayer may claim  
 23 first year credits only for one or more qualified employment positions that  
 24 it created and filled with an eligible employee after the purchase or  
 25 reorganization was complete. If a person purchases a taxpayer that had  
 26 qualified for first or second year credits or changes ownership through  
 27 reorganization, stock purchase or merger, the new taxpayer may claim the  
 28 second or third year credits if it meets other eligibility requirements of  
 29 this section. Credits for which a taxpayer qualified before the changes  
 30 described in this subsection are terminated and lost at the time the changes  
 31 are implemented.

32 ~~J.~~ K. A failure to timely report and certify to the department of  
 33 commerce and the department of revenue the information prescribed by section  
 34 41-1525, subsection B, paragraphs 1, 2 and 3 and in the manner prescribed by  
 35 section 41-1525, subsection C, ~~disqualifies~~ the taxpayer from the credit  
 36 under this section. The department of revenue shall require written evidence  
 37 of the timely report to the department of commerce.

38 ~~K.~~ L. The termination of an enterprise zone does not affect the  
 39 credit under this section with respect to:

40 1. Taxpayers who have employees in the second and third years of  
 41 employment in qualified employment positions under subsections A, ~~B and C~~ AND  
 42 D of this section if the business remains in the location that was in the  
 43 enterprise zone.

44 2. Amounts carried forward into subsequent taxable years under  
 45 subsection ~~G~~ H of this section.

1 ~~L.~~ M. The department may adopt rules necessary for the administration  
2 of this section.

3 ~~M.~~ N. For the purposes of this section:

4 1. "Assigned to retail" means working more than twenty-five per cent  
5 of an employee's time in one or more retail sales activities.

6 2. "Retail sales" means the sale of tangible personal property to an  
7 ultimate consumer.

8 3. "Retail sales activities" means all activities persons operating a  
9 retail business normally engage in, including taking orders, filling orders,  
10 billing orders, receiving and processing payment and shipping, stocking and  
11 delivering tangible personal property to the ultimate consumer, except drop  
12 shipments by a company acting on behalf of an unrelated company that has made  
13 a sale to a final consumer.

14 4. "Zone location" means a single parcel or contiguous parcels of  
15 owned or leased land, the structures and personal property contained on the  
16 land or any part of the structures occupied by a taxpayer.

17 Sec. 5. Section 43-1074.01, Arizona Revised Statutes, as amended by  
18 Laws 2001, chapter 115, section 19, is amended to read:

19 43-1074.01. Credit for increased research activities

20 A. A credit is allowed against the taxes imposed by this title in an  
21 amount determined pursuant to section 41 of the internal revenue code, except  
22 that:

23 1. The amount of the credit is based on the excess, if any, of the  
24 qualified research expenses for the taxable year over the base amount as  
25 defined in section 41(c) of the internal revenue code and is computed as  
26 follows:

27 (a) If the excess is two million five hundred thousand dollars or  
28 less, the credit is equal to twenty per cent of that amount.

29 (b) If the excess is over two million five hundred thousand dollars,  
30 the credit is equal to five hundred thousand dollars plus eleven per cent of  
31 any amount exceeding two million five hundred thousand dollars, except that:

32 (i) For taxable years beginning from and after December 31, 2000  
33 through December 31, 2001, the credit shall not exceed one million five  
34 hundred thousand dollars.

35 (ii) For taxable years beginning from and after December 31, 2001  
36 through December 31, 2002, the credit shall not exceed two million five  
37 hundred thousand dollars.

38 2. Qualified research includes only research conducted in this state,  
39 including research conducted at a university in this state and paid for by  
40 the taxpayer.

41 3. If two or more taxpayers, including partners in a partnership and  
42 shareholders of an S corporation, as defined in section 1361 of the internal  
43 revenue code, share in the eligible expenses, each taxpayer is eligible to  
44 receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

**B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

~~B.~~ C. If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes may be carried forward to the next fifteen consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2000 through December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title or five hundred thousand dollars, whichever is less, minus the credit under this section for the current taxable year's qualified research expenses. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses.

Sec. 6. Section 43-1074.01, Arizona Revised Statutes, as amended by Laws 2008, chapter 290, section 2, is amended to read:

43-1074.01. Credit for increased research activities

A. A credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

1. The amount of the credit is based on the excess, if any, of the qualified research expenses for the taxable year over the base amount as defined in section 41(c) of the internal revenue code and is computed as follows:

(a) If the excess is two million five hundred thousand dollars or less, the credit is equal to twenty-four per cent of that amount.

(b) If the excess is over two million five hundred thousand dollars, the credit is equal to six hundred thousand dollars plus fifteen per cent of any amount exceeding two million five hundred thousand dollars, except that:

(i) For taxable years beginning from and after December 31, 2000 through December 31, 2001, the credit shall not exceed one million five hundred thousand dollars.

(ii) For taxable years beginning from and after December 31, 2001 through December 31, 2002, the credit shall not exceed two million five hundred thousand dollars.

2. Qualified research includes only research conducted in this state, including research conducted at a university in this state and paid for by the taxpayer.

3. If two or more taxpayers, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal

1 revenue code, share in the eligible expenses, each taxpayer is eligible to  
2 receive a proportionate share of the credit.

3 4. The credit under this section applies only to expenses incurred  
4 from and after December 31, 2000.

5 5. The termination provisions of section 41 of the internal revenue  
6 code do not apply.

7 **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
8 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

9 ~~B.~~ C. If the allowable credit under this section exceeds the taxes  
10 otherwise due under this title on the claimant's income, or if there are no  
11 taxes due under this title, the amount of the credit not used to offset taxes  
12 may be carried forward to the next fifteen consecutive taxable years. The  
13 amount of credit carryforward from taxable years beginning from and after  
14 December 31, 2000 through December 31, 2002 that may be used in any taxable  
15 year may not exceed the taxpayer's tax liability under this title or five  
16 hundred thousand dollars, whichever is less, minus the credit under this  
17 section for the current taxable year's qualified research expenses. The  
18 amount of credit carryforward from taxable years beginning from and after  
19 December 31, 2002 that may be used in any taxable year may not exceed the  
20 taxpayer's tax liability under this title minus the credit under this section  
21 for the current taxable year's qualified research expenses.

22 Sec. 7. Section 43-1074.01, Arizona Revised Statutes, as added by Laws  
23 2008, chapter 290, section 4, is amended to read:

24 **43-1074.01. Credit for increased research activities**

25 A. A credit is allowed against the taxes imposed by this title in an  
26 amount determined pursuant to section 41 of the internal revenue code, except  
27 that:

28 1. The amount of the credit is based on the excess, if any, of the  
29 qualified research expenses for the taxable year over the base amount as  
30 defined in section 41(c) of the internal revenue code and is computed as  
31 follows:

32 (a) If the excess is two million five hundred thousand dollars or  
33 less, the credit is equal to twenty per cent of that amount.

34 (b) If the excess is over two million five hundred thousand dollars,  
35 the credit is equal to five hundred thousand dollars plus eleven per cent of  
36 any amount exceeding two million five hundred thousand dollars, except that:

37 (i) For taxable years beginning from and after December 31, 2000  
38 through December 31, 2001, the credit shall not exceed one million five  
39 hundred thousand dollars.

40 (ii) For taxable years beginning from and after December 31, 2001  
41 through December 31, 2002, the credit shall not exceed two million five  
42 hundred thousand dollars.

43 2. Qualified research includes only research conducted in this state,  
44 including research conducted at a university in this state and paid for by  
45 the taxpayer.

3. If two or more taxpayers, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

**B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

~~B.~~ C. If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes may be carried forward to the next fifteen consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2000 through December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title or five hundred thousand dollars, whichever is less, minus the credit under this section for the current taxable year's qualified research expenses. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses.

Sec. 8. Section 43-1074.02, Arizona Revised Statutes, is amended to read:

**43-1074.02. Credit for investment in qualified small businesses**

A. For taxable years beginning from and after December 31, 2006 through December 31, 2014, a credit is allowed against the taxes imposed by this title for investment made after June 30, 2006 in qualified small businesses. The amount of the credit is the amount determined and authorized by the department of commerce as provided by section 41-1518.

**B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

~~B.~~ C. To claim the credit under this section, the taxpayer shall attach to its tax return a copy of the department of commerce certification provided pursuant to section 41-1518. No credit is allowed under this section unless the taxpayer provides the certification.

~~C.~~ D. The basis of any investment with respect to which the taxpayer has claimed a credit under this section shall be reduced by the amount of the credit claimed with respect to that investment.

~~D.~~ E. If the allowable tax credit exceeds the taxes due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset the taxes under this title may be carried forward to the next three consecutive taxable years as a credit against subsequent years' income tax liability.



~~E.~~ F. Individuals who are co-owners of a business, including partners in a partnership and shareholders of an S corporation as defined in section 1361 of the internal revenue code, may each claim only their individual pro rata shares of the credit allowed under this section based on their ownership interests. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

~~F.~~ G. If the department of revenue determines that there has been a misrepresentation on an application submitted to the department of commerce under section 41-1518, the department of revenue shall deny the credit if the misrepresentation relates to whether the applicant was a qualified investor or made a qualified investment. If the misrepresentation relates to whether the investment was made to:

1. A qualified small business, the department of revenue shall deny the credit only if the applicant knew or should have known at any time before the certification that the representation was false.

2. A bioscience enterprise or a business that maintains its principal place of business in a rural county in this state, the department of revenue shall decrease the amount of the credit that would have been allowed only if the applicant knew or should have known at any time before the certification that the representation was false.

Sec. 9. Section 43-1075, Arizona Revised Statutes, is amended to read:

43-1075. Credit for motion picture production costs;  
definitions

A. Beginning from and after December 31, 2005 through December 31, 2010, a credit is allowed against the taxes imposed by this title for motion picture production costs paid by a motion picture production company in this state that are directly attributable to the production of one or more motion pictures in this state. The amount of the credit is equal to a percentage of the amount of motion picture production costs paid in this state as follows:

<u>Production costs</u>	<u>Percentage credit</u>
\$250,000 - \$1,000,000	20%
More than \$1,000,000	30%

**B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

~~B.~~ C. The department shall not allow in any year tax credits that exceed the aggregate amount prescribed in section 41-1517.

~~C.~~ D. The department shall not allow a credit under this section to a taxpayer who has a delinquent tax balance owing to the department under this title or title 42.

~~D.~~ E. To qualify for a credit under this section, the motion picture production company must:

1. Employ residents of this state in production as follows:

(a) In 2006, twenty-five per cent of full-time employees working in this state must be residents of this state.



(b) In 2007, thirty-five per cent of full-time employees working in this state must be residents of this state.

(c) In 2008 and every subsequent taxable year, fifty per cent of full-time employees working in this state must be residents of this state.

2. Include in the production credits for each commercial motion picture, other than a commercial advertisement or music video, an acknowledgement that the production was filmed in Arizona.

3. Receive preapproval and postapproval from the department of commerce pursuant to section 41-1517.

~~E.~~ F. Beginning with tax credits allocated for 2006 pursuant to section 41-1517, subsection J, a motion picture production company, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its production costs and other requirements prescribed by section 41-1517 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the motion picture production company receives postcertification for the credit pursuant to section 41-1517, subsection O. The audit must be conducted by the taxpayer's authorized representative, as defined by section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the motion picture production company or its affiliates. If the director accepts the findings of the audit and issues a notice of determination pursuant to section 42-2303 and the taxpayer timely files its income tax return with the appropriate credit claim forms, the credit amount accepted is not subject to recapture, disallowance, reduction or denial with respect to either the motion picture production company or any subsequent transferee of the credit, and subsection ~~H.~~ I, paragraph 4 of this section does not apply. The director's notice of determination shall include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. This subsection does not prohibit the recapture of a credit from a motion picture production company if the company failed to disclose material information during the audit or falsified its books or records or otherwise engaged in an action that prevented an accurate audit.

~~F.~~ G. Co-owners of a motion picture production company, including partners in a partnership, members of a limited liability company and shareholders of an S corporation as defined in section 1361 of the internal revenue code, may allocate the credit allowed under this section among the co-owners on any basis without regard to their proportional ownership interest. The total of the credits allowed all such owners of the motion picture production company may not exceed the amount that would have been allowed for a sole owner of the company.

~~G.~~ H. If the allowable tax credit for a taxpayer exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

~~H.~~ I. All or part of any unclaimed amount of credit under this section may be sold or otherwise transferred under the following conditions:

1. A single sale or transfer may involve one or more transferees, and a transferee may in turn resell or transfer the credit subject to the same conditions of this subsection.

2. Both the transferor and transferee must submit a written notice of the transfer to the department within thirty days after the sale or transfer. The transferee's notice shall include a processing fee equal to one per cent of the transferee's tax credit balance or two hundred dollars, whichever is less. The notice shall include:

(a) The name of the motion picture production company.

(b) The date of the transfer.

(c) The amount of the transfer.

(d) The transferor's tax credit balance before the transfer and the remaining balance after the transfer.

(e) All tax identification numbers for both transferor and transferee.

(f) Any other information required by rule.

3. A sale or transfer of the credit does not extend the time in which the credit can be used.

4. Except as provided by subsection ~~E~~ F of this section, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, the department shall either disallow the credit claimed by a transferee or recapture the credit from the transferee through any authorized collection method. The transferee's recourse is against the transferor.

5. In the case of any failure to comply with this subsection, the department shall disallow the tax credit until the taxpayer is in full compliance.

~~I.~~ J. The department shall maintain annual data on the total amount of monies credited pursuant to this section, and shall provide those data to the department of commerce on request.

~~J.~~ K. The department, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

~~K.~~ L. A taxpayer who claims a credit for motion picture costs under this section shall not claim a credit under section 43-1075.01 for the same costs.

~~L.~~ M. The credit allowed by this section is in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the internal revenue code.

~~M.~~ N. For the purposes of this section, "commercial advertisement", "motion picture", "motion picture production company" and "music video" have the same meanings prescribed in section 41-1517.

Sec. 10. Section 43-1075.01, Arizona Revised Statutes, is amended to read:

43-1075.01. Credit for motion picture infrastructure projects: definition

A. A credit is allowed against the taxes imposed by this title for investments in motion picture infrastructure projects in this state as provided by section 41-1517.01. The amount of the credit is fifteen per cent of the total base investment in the project during the taxable year as approved and reported by the department of commerce pursuant to section 41-1517.01, subsection F. The taxpayer may apply the credit against income taxes for the taxable year in which the motion picture infrastructure project is completed as provided by section 41-1517.01, subsection F.

B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~B.~~ C. The department shall not allow:

1. Tax credits for any taxable year under this section and section 43-1163.01 that would violate the aggregate limits prescribed by section 41-1517.01, subsection C.

2. A tax credit under this section to a taxpayer who has a delinquent tax balance owing to the department under this title or title 42.

~~C.~~ D. An applicant, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its base investment and other requirements prescribed by section 41-1517.01 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the applicant receives approval for the credit pursuant to section 41-1517.01, subsection F. The audit must be conducted by the applicant's authorized representative, as defined in section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the taxpayer or its affiliates. If the director accepts the findings of the audit and issues a notice of determination pursuant to section 42-2303 and the taxpayer timely files its income tax return with the appropriate credit claim forms, the credit amount accepted is not subject to recapture, disallowance, reduction or denial with respect to either the taxpayer or any subsequent transferee of the credit, and subsection ~~F~~ G, paragraph 4 of this section does not apply. The director's notice of determination shall include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. This subsection does not prevent the recapture of a credit if the taxpayer failed to disclose material information

1 during the audit or falsified its books or records or otherwise engaged in an  
2 action that prevented an accurate audit.

3 ~~D.~~ E. Co-owners of a business, including partners in a partnership,  
4 members of a limited liability company and shareholders of an S corporation  
5 as defined in section 1361 of the internal revenue code, may allocate the  
6 credit allowed under this section among the co-owners on any basis without  
7 regard to their proportional ownership interest. The total of the credits  
8 allowed all such owners may not exceed the amount that would have been  
9 allowed for a sole owner of the company.

10 ~~E.~~ F. If the allowable tax credit for a taxpayer exceeds the taxes  
11 otherwise due under this title on the claimant's income, or if there are no  
12 taxes due under this title, the taxpayer may carry the amount of the claim  
13 not used to offset the taxes under this title forward for not more than five  
14 consecutive taxable years' income tax liability.

15 ~~F.~~ G. All or part of any unclaimed amount of credit under this  
16 section may be sold or otherwise transferred under the following conditions:

17 1. A single sale or transfer may involve one or more transferees, and  
18 a transferee may in turn resell or transfer the credit subject to the same  
19 conditions of this subsection.

20 2. Both the transferor and transferee must submit a written notice of  
21 the transfer to the department within thirty days after the sale or transfer.  
22 The transferee's notice shall include a processing fee equal to one per cent  
23 of the transferee's tax credit balance or two hundred dollars, whichever is  
24 less. The notice shall include:

25 (a) The name of the taxpayer.  
26 (b) The date of the transfer.  
27 (c) The amount of the transfer.  
28 (d) The transferor's tax credit balance before the transfer and the  
29 remaining balance after the transfer.

30 (e) All tax identification numbers for both ~~THE~~ transferor and  
31 transferee.

32 (f) Any other information required by rule.

33 3. A sale or transfer of the credit does not extend the time in which  
34 the credit can be used. The carryforward period of time under subsection E  
35 of this section for a credit that is sold or transferred begins on the date  
36 the credit was originally earned.

37 4. Except as provided by subsection ~~G.~~ D of this section, if a  
38 transferor was not qualified or was disqualified from using the credit at the  
39 time of the transfer, the department shall either disallow the credit claimed  
40 by a transferee or recapture the credit from the transferee through any  
41 authorized collection method. The transferee's recourse is against the  
42 transferor.

43 5. In the case of any failure to comply with this subsection, the  
44 department shall disallow the tax credit until the taxpayer is in full  
45 compliance.

~~G.~~ H. The department of revenue shall maintain annual data on the total amount of monies credited pursuant to this section, and shall provide that data to the department of commerce on request.

~~H.~~ I. The department of revenue, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

~~I.~~ J. A taxpayer who claims a credit for motion picture infrastructure projects under this section shall not claim a credit under section 43-1075 for the same costs.

~~J.~~ K. The credit allowed by this section is in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the internal revenue code.

~~K.~~ L. For the purposes of this section, "motion picture infrastructure project" has the same meaning prescribed in section 41-1517.01.

Sec. 11. Section 43-1076, Arizona Revised Statutes, is amended to read:

43-1076. Credit for employment by a healthy forest enterprise

A. For taxable years beginning from and after December 31, 2004 through December 31, 2014, a credit is allowed against the taxes imposed by this title for net increases in qualified employment positions by a qualified business that is certified by the department of commerce as a healthy forest enterprise pursuant to section 41-1516.

B. Subject to subsection ~~E~~ F of this section, the amount of the credit is equal to:

1. One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment.

2. One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand dollars per qualified employment position, in the second year of continuous employment.

3. One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand five hundred dollars per qualified employment position, in the third year of continuous employment.

C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~G.~~ D. To qualify for a credit under this section:

1. The business must employ at least three new full-time employees in qualified employment positions in the first taxable year in which the credit is claimed.

2. All of the employees with respect to whom a credit is claimed must reside in this state on the date of hire.

3. A qualified employment position must meet all of the following requirements:

(a) The position must be full-time employment for a minimum of one thousand five hundred fifty hours per year, unless a shorter period of employment is due to forest closures or weather conditions beyond the taxpayer's control.

(b) The job duties must primarily involve or directly support the harvesting, transporting or the initial processing of qualifying forest products removed from qualifying projects as defined in section 41-1516 into a product having commercial value.

(c) The employer must pay compensation at least equal to the wage offer by county as computed annually by the department of economic security research administration division.

(d) The employee must have been employed for at least ninety days during the first taxable year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the next taxable year. A qualified employment position that is filled during the last ninety days of the taxable year is considered to be a new qualified employment position for the next taxable year.

(e) The employee has not been previously employed by the taxpayer within twelve months before the current date of hire.

4. The employer shall provide health insurance coverage for employees as follows:

(a) The employer shall pay:

(i) At least twenty-five per cent of the premium or membership cost of the insurance program in the third year the taxpayer claims a credit under this section. If the taxpayer is self-insured, the taxpayer must pay at least twenty-five per cent of a predetermined fixed cost per employee for an insurance program that is payable whether or not the employee has filed claims.

(ii) At least forty per cent of the premium or membership cost in the fourth year the taxpayer claims a credit under this section. If the taxpayer is self-insured, the taxpayer must pay at least forty per cent of a predetermined fixed cost per employee for an insurance program that is payable whether or not the employee has filed claims.

(iii) At least fifty per cent of the premium or membership cost of the insurance program in the fifth and each subsequent year the taxpayer claims a credit under this section. If the taxpayer is self-insured, the taxpayer must pay at least fifty per cent of a predetermined fixed cost per employee for an insurance program that is payable whether or not the employee has filed claims.

(b) An employer shall not reduce the amount of health insurance coverage provided to employees before certification by the department of commerce.

~~D.~~ E. A credit is allowed for employment in the second and third year only for qualified employment positions for which a credit was allowed and claimed by the taxpayer on the original first and second year tax returns.

1       ~~E.~~ F. The net increase in the number of qualified employment  
2 positions is the lesser of the total number of filled qualified employment  
3 positions created during the taxable year or the difference between the  
4 average number of full-time employees in the current taxable year and the  
5 average number of full-time employees during the immediately preceding  
6 taxable year. The net increase in the number of qualified employment  
7 positions computed under this subsection may not exceed two hundred qualified  
8 employment positions per taxpayer each year.

9       ~~F.~~ G. A taxpayer who claims a credit under section 43-1074, 43-1077  
10 or 43-1079 may not claim a credit under this section with respect to the same  
11 employees.

12       ~~G.~~ H. If the allowable tax credit exceeds the income taxes otherwise  
13 due on the claimant's income, or if there are no state income taxes due on  
14 the claimant's income, the amount of the claim not used as an offset against  
15 income taxes may be carried forward as a tax credit against subsequent years'  
16 income tax liability for the period not to exceed five taxable years,  
17 provided the business maintains its certification under section 41-1516.

18       ~~H.~~ I. Co-owners of a business, including partners in a partnership  
19 and shareholders of an S corporation as defined in section 1361 of the  
20 internal revenue code, may each claim only the pro rata share of the credit  
21 allowed under this section based on the ownership interest. The total of the  
22 credits allowed all such owners of the business may not exceed the amount  
23 that would have been allowed for a sole owner of the business.

24       ~~I.~~ J. If a qualified business changes ownership through  
25 reorganization, stock purchase or merger, the new taxpayer may claim first  
26 year credits only for one or more qualified employment positions that it  
27 created and filled with an eligible employee after the purchase or  
28 reorganization was complete. If a person purchases a business that had  
29 qualified for first or second year credits or changes ownership through  
30 reorganization, stock purchase or merger, the new taxpayer may claim the  
31 second or third year credits if it meets the other eligibility requirements  
32 of this section. Credits for which a taxpayer qualified before the changes  
33 described in this subsection are terminated and lost at the time the changes  
34 are implemented.

35       ~~J.~~ K. If, within five taxable years after first receiving a credit  
36 pursuant to this section, the certification of qualification of a business is  
37 terminated or revoked under section 41-1516 other than for reasons beyond the  
38 control of the business as determined by the department of commerce, the  
39 credits allowed the business pursuant to this section are subject to  
40 recapture pursuant to this subsection. This subsection applies only in the  
41 case of the termination or revocation of a certification of qualification.  
42 This subsection does not apply if, in any taxable year, a taxpayer otherwise  
43 does not qualify for or fails to claim the credit under this section. The  
44 recapture of credits under this subsection is computed by increasing the  
45 amount of taxes imposed in the year following the year in which the



1 qualification of the business was terminated or revoked by an amount  
 2 determined by multiplying the full amount of all credits previously allowed  
 3 under this section by a percentage determined as follows:

4 1. If the initial credit under this section was allowed for the  
 5 taxable year immediately preceding the taxable year in which the  
 6 certification of qualification of a business is terminated or revoked, one  
 7 hundred per cent.

8 2. If the initial credit under this section was allowed two taxable  
 9 years before the taxable year in which the certification of qualification of  
 10 a business is terminated or revoked, eighty per cent.

11 3. If the initial credit under this section was allowed three taxable  
 12 years before the taxable year in which the certification of qualification of  
 13 a business is terminated or revoked, sixty per cent.

14 4. If the initial credit under this section was allowed four taxable  
 15 years before the taxable year in which the certification of qualification of  
 16 a business is terminated or revoked, forty per cent.

17 5. If the initial credit under this section was allowed five taxable  
 18 years before the taxable year in which the certification of qualification of  
 19 a business is terminated or revoked, twenty per cent.

20 Sec. 12. Section 43-1077, Arizona Revised Statutes, is amended to  
 21 read:

22 43-1077. Credit for employment by qualified defense contractor

23 A. A credit is allowed against the taxes imposed by this title for:

24 1. Net increases in employment under United States department of  
 25 defense contracts during the taxable year, as computed under subsection ~~E~~ E  
 26 of this section, by a qualified defense contractor who is certified by the  
 27 department of commerce under section 41-1508.

28 2. Net increases in private commercial employment during the taxable  
 29 year, as computed under subsection ~~E~~ F of this section, by a qualified  
 30 defense contractor who is certified by the department of commerce under  
 31 section 41-1508 due to full-time equivalent employee positions transferred  
 32 during the taxable year by the taxpayer from exclusively defense related  
 33 activities to employment by the taxpayer in exclusively private commercial  
 34 activities.

35 B. The amount of the credit is a dollar amount allowed for each  
 36 full-time equivalent employee position created, determined as follows:

37 1st year	\$2,500
38 2nd year	\$2,000
39 3rd year	\$1,500
40 4th year	\$1,000
41 5th year	\$ 500

42 C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
 43 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

44 ~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due  
 45 under this title on the claimant's income, or if there are no taxes due under



1 this title, the taxpayer may carry the amount of the claim not used to offset  
2 the taxes under this title forward until taxable years beginning from and  
3 after December 31, 2011 as a credit against subsequent years' income tax  
4 liability, regardless of continuing certification as a qualified defense  
5 contractor.

6 ~~D.~~ E. The net increase in employment under defense related contracts  
7 shall be determined as follows:

8 1. Establish an employment baseline for the taxpayer based on a  
9 multiyear forecast of employment on United States department of defense  
10 contracts that was submitted to the department of defense before June 1,  
11 1992. The annual average employment forecast for the first year the taxpayer  
12 qualified is the baseline. If the taxpayer did not make such a forecast  
13 before June 1, 1992, the baseline is the average annual employment as  
14 reported to the department of economic security during the preceding taxable  
15 year. If a taxpayer qualifies in the same year it relocates into this state,  
16 the taxpayer's baseline is zero.

17 2. For the first year of the credit, the taxpayer's net increase in  
18 average employment is the increase in employment reported to the department  
19 of economic security for the taxable year over the employment baseline.

20 3. For each succeeding year of the credit, the taxpayer's net increase  
21 in average employment is the increase in employment reported to the  
22 department of economic security for the taxable year over the preceding  
23 taxable year's average employment.

24 ~~E.~~ F. In computing the amount of credit allowed under subsection A,  
25 paragraph 2 of this section, the taxpayer shall:

26 1. Prorate employment during the taxable year according to the date of  
27 transfer from defense to private commercial activities or the date of  
28 transfer from private commercial activities to defense.

29 2. Compute and subtract an amount pursuant to subsection B of this  
30 section for full-time equivalent employee positions that were transferred  
31 during the taxable year by the taxpayer from exclusively private commercial  
32 activities to exclusively defense related activities.

33 ~~F.~~ G. The taxpayer shall account for qualifying full-time equivalent  
34 employee positions on a first-in first-out basis. If a decrease in  
35 qualifying employment occurs, the taxpayer shall subtract the decrease from  
36 the earliest qualifying positions.

37 ~~G.~~ H. A credit is not allowed under both subsection A, paragraphs 1  
38 and 2 of this section with respect to the same employee position. A  
39 full-time equivalent employee position may be considered for purposes of  
40 computing the credit under either subsection A, paragraph 1 or 2 of this  
41 section, but not both.

42 ~~H.~~ I. A credit is not allowed under this section with respect to  
43 employment that was transferred from an outside contractor in this state to  
44 in-house employment by the taxpayer solely for purposes of qualifying for the  
45 credit.

~~I.~~ J. A taxpayer who claims a credit under section 43-1074 or 43-1079 may not claim a credit under this section with respect to the same employees.

~~J.~~ K. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Sec. 13. Section 43-1078, Arizona Revised Statutes, is amended to read:

43-1078. Credit for property taxes paid by qualified defense contractor

A. A credit is allowed against the taxes imposed by this title equal to a portion of the amount paid as taxes during the taxable year by a qualified defense contractor that is certified by the department of commerce under section 41-1508, on property in this state that is classified as class one, paragraphs 12 and 13 pursuant to section 42-12001.

B. The amount of the credit is determined as follows:

1. Multiply the amount paid as taxes on property classified as class one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during the taxable year by a percentage based on net new defense related employment, determined by subtracting the employment baseline determined pursuant to section 43-1077, subsection ~~D.~~ E, paragraph 1, from average annual employment as reported to the department of economic security for the taxable year, as follows:

<u>New employment</u>	<u>Credit percentage</u>
More than 900	40%
601 - 900	30%
301 - 600	20%
1 - 300	10%

2. Multiply the amount determined under paragraph 1 of this subsection by a percentage determined by dividing the taxpayer's total gross income from United States department of defense contracts apportioned to this state by the taxpayer's total gross income from all sources apportioned to this state.

C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward until taxable years beginning from and after December 31, 2011 as a credit against subsequent years' income tax liability, regardless of continuing certification as a qualified defense contractor.

~~D.~~ E. The credit allowed by this section is in lieu of a deduction for property taxes under section 43-1042 with respect to the same taxes paid.

~~E.~~ F. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Sec. 14. Section 43-1079, Arizona Revised Statutes, is amended to read:

43-1079. Credit for increased employment in military reuse zones; definition

A. A credit is allowed against the taxes imposed by this title for net increases in employment by the taxpayer of full-time employees working in a military reuse zone, established under title 41, chapter 10, article 3, and who are primarily engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit is a dollar amount allowed for each new employee, determined as follows:

1. With respect to each employee other than a dislocated military base employee:

1st year of employment	\$ 500
2nd year of employment	\$1,000
3rd year of employment	\$1,500
4th year of employment	\$2,000
5th year of employment	\$2,500

2. With respect to each dislocated military base employee:

1st year of employment	\$1,000
2nd year of employment	\$1,500
3rd year of employment	\$2,000
4th year of employment	\$2,500
5th year of employment	\$3,000

**B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

~~B.~~ C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset the taxes under this title may be carried forward as a credit against subsequent years' income tax liability for the period, not to exceed five taxable years, if the business remains in the military reuse zone.

~~C.~~ D. The net increase in the number of employees for purposes of this section shall be determined by comparing the taxpayer's average employment in the military reuse zone during the taxable year with the taxpayer's previous year's fourth quarter employment in the zone, based on the taxpayer's report to the department of economic security for unemployment insurance purposes but considering only employment in the zone.

~~D.~~ E. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

~~E.~~ F. A credit is not allowed under this section with respect to an employee whose place of employment is relocated by the taxpayer from a location in this state to the military reuse zone, unless the employee is engaged in aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products and the taxpayer maintains at least the same number of employees in this state but outside the zone.

~~F.~~ G. A taxpayer who claims a credit under section 43-1074 or 43-1077 may not claim a credit under this section with respect to the same employees.

~~G.~~ H. For the purposes of this section, "dislocated military base employee" means a civilian who previously had permanent full-time civilian employment on the military facility as of the date the closure of the facility was finally determined under federal law, as certified by the department of commerce.

Sec. 15. Section 43-1079.01, Arizona Revised Statutes, is amended to read:

43-1079.01. Credit for employing national guard members

A. For taxable years beginning from and after December 31, 2005, a credit is allowed against the taxes imposed by this title for a taxpayer whose employee is a member of the Arizona national guard if the employee is placed on active duty. The amount of the credit is one thousand dollars for each employee who is placed on active duty by the Arizona national guard.

B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~B.~~ C. To qualify for the credit:

1. The employee must be a member of the Arizona national guard who is employed by the taxpayer in a full-time equivalent position when the employee is placed on active duty.

2. Each member of the Arizona national guard who is employed must have served during the taxable year on active duty for training that exceeds the required annual training period, including any activation for federal or state contingencies or emergencies.

~~C.~~ D. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset taxes under this title may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

~~D.~~ E. The credit under this section may be claimed only once by the taxpayer in any taxable year with respect to each employee who is placed on active duty by the Arizona national guard, but may be claimed again for that

1 employee in a subsequent taxable year if that employee remains on active duty  
2 or is placed again on active duty in a subsequent taxable year.

3 ~~E.~~ F. Co-owners of a business, including partners in a partnership  
4 and shareholders of an S corporation as defined in section 1361 of the  
5 internal revenue code, may each claim only the pro rata share of the credit  
6 allowed under this section based on the ownership interest. The total of the  
7 credits allowed all such owners may not exceed the amount that would have  
8 been allowed a sole owner.

9 Sec. 16. Section 43-1080, Arizona Revised Statutes, is amended to  
10 read:

11 43-1080. Credit for construction costs of qualified  
12 environmental technology facility

13 A. A credit is allowed against the taxes imposed by this title for  
14 expenses incurred in constructing a qualified environmental technology  
15 manufacturing, producing or processing facility as described in section  
16 41-1514.02. The amount of the credit is equal to ten per cent of the amount  
17 spent during the taxable year to construct the facility, including land  
18 acquisition, improvements, building improvements, machinery and equipment,  
19 but not exceeding seventy-five per cent of the tax liability under this title  
20 for the taxable year determined without applying the credit.

21 B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
22 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

23 ~~B.~~ C. Amounts qualifying for the credit under this section must be  
24 includible in the taxpayer's adjusted basis for the facility. The adjusted  
25 basis of any asset with respect to which the taxpayer has claimed a credit  
26 shall be reduced by the amount of credit claimed with respect to that asset.  
27 This credit does not affect the deductibility for depreciation or  
28 amortization of the remaining adjusted basis of the asset.

29 ~~C.~~ D. A taxpayer may claim a credit under this section with respect  
30 to new qualifying construction within ten years after the start of the  
31 facility's initial construction, but a credit is not allowed under this  
32 section for any amount spent more than ten years after the start of the  
33 facility's initial construction.

34 ~~D.~~ E. A taxpayer qualifies for the credit under this section if the  
35 taxpayer owns the facility or leases the facility or any component of the  
36 facility for a term of five or more years.

37 ~~E.~~ F. If the allowable tax credit exceeds seventy-five per cent of  
38 the taxes otherwise due under this title on the claimant's income, or if  
39 there are no taxes due under this title, the amount of the claim not used to  
40 offset taxes under this title may be carried forward for not more than  
41 fifteen taxable years as a credit against subsequent years' income tax  
42 liability.

43 ~~F.~~ G. Co-owners of a business, including partners in a partnership  
44 and shareholders of an S corporation, as defined in section 1361 of the  
45 internal revenue code, may each claim only the pro rata share of the credit

1 allowed under this section based on the ownership interest. The total of the  
 2 credits allowed all such owners may not exceed the amount that would have  
 3 been allowed for a sole owner of the business.

4 ~~G.~~ H. If either of the following circumstances occurs with respect to  
 5 a qualified environmental technology manufacturing, producing or processing  
 6 facility, the tax imposed by this title for the taxable year in which the  
 7 circumstance occurs shall be increased by the full amount of all credits  
 8 previously allowed under this section with respect to that facility:

9 1. The taxpayer abandons construction before the facility is placed in  
 10 service.

11 2. Before the facility is placed in service, the taxpayer changes  
 12 plans in such a manner as to no longer qualify as an environmental technology  
 13 manufacturing, producing or processing facility under section 41-1514.02.

14 ~~H.~~ I. If, within five years after being placed in service, an  
 15 operating environmental technology manufacturing, producing or processing  
 16 facility with respect to which a credit has been allowed under this section  
 17 ceases for any reason to operate as an environmental technology  
 18 manufacturing, producing or processing facility as described in section  
 19 41-1514.02, the tax imposed by this title for the taxable year shall be  
 20 increased by an amount determined by multiplying the full amount of all  
 21 credits previously allowed under this section with respect to that facility  
 22 by a percentage determined as follows:

23 1. If the facility was placed in service less than one year before  
 24 ceasing to operate as an environmental technology manufacturing, producing or  
 25 processing facility, one hundred per cent.

26 2. If the facility was placed in service at least one year but not  
 27 more than two years before ceasing to operate as an environmental technology  
 28 manufacturing, producing or processing facility, eighty per cent.

29 3. If the facility was placed in service at least two years but less  
 30 than three years before ceasing to operate as an environmental technology  
 31 manufacturing, producing or processing facility, sixty per cent.

32 4. If the facility was placed in service at least three years but less  
 33 than four years before ceasing to operate as an environmental technology  
 34 manufacturing, producing or processing facility, forty per cent.

35 5. If the facility was placed in service at least four years but less  
 36 than five years before ceasing to operate as an environmental technology  
 37 manufacturing, producing or processing facility, twenty per cent.

38 ~~I.~~ J. The department by rule shall prescribe record keeping  
 39 requirements for taxpayers who claim a credit under this section.

40 Sec. 17. Section 43-1081, Arizona Revised Statutes, is amended to  
 41 read:

42 43-1081. Credit for pollution control equipment

43 A. A credit is allowed against the taxes imposed by this title for  
 44 expenses that the taxpayer incurred during the taxable year to purchase real  
 45 or personal property that is used in the taxpayer's trade or business in this

1 state to control or prevent pollution. The amount of the credit is equal to  
2 ten per cent of the purchase price.

3 **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
4 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

5 ~~B.~~ **C.** Property that qualifies for the credit under this section  
6 includes that portion of a structure, building, installation, excavation,  
7 machine, equipment or device and any attachment or addition to or  
8 reconstruction, replacement or improvement of that property that is directly  
9 used, constructed, or installed in this state for the purpose of meeting or  
10 exceeding rules or regulations adopted by the United States environmental  
11 protection agency, the department of environmental quality or a political  
12 subdivision of this state to prevent, monitor, control or reduce air, water  
13 or land pollution that results from the taxpayer's direct operating  
14 activities in conducting a trade or business in this state.

15 ~~C.~~ **D.** The credit allowed pursuant to this section does not apply to:

16 1. The purchase of any personal property that is attached to a motor  
17 vehicle.

18 2. Any property that has a substantial use for a purpose other than  
19 the purposes described in subsection ~~B.~~ **C.**

20 3. Any portion of pollution control property that is included as a  
21 standard and integral part of another property.

22 ~~D.~~ **E.** Amounts that qualify for a credit under this section must be  
23 includible in the taxpayer's adjusted basis for the property. The adjusted  
24 basis of any property with respect to which the taxpayer has claimed a credit  
25 shall be reduced by the amount of credit claimed with respect to that asset.  
26 This credit does not affect the deductibility for depreciation or  
27 amortization of the remaining adjusted basis of the asset.

28 ~~E.~~ **F.** Co-owners of a business, including partners in a partnership  
29 and shareholders of an S corporation, as defined in section 1361 of the  
30 internal revenue code, may each claim only the pro rata share of the credit  
31 allowed under this section based on the ownership interest. The total of the  
32 credits allowed all such owners may not exceed the amount that would have  
33 been allowed a sole owner.

34 ~~F.~~ **G.** If the allowable tax credit exceeds the taxes otherwise due  
35 under this title on the claimant's income, or if there are no taxes due under  
36 this title, the taxpayer may carry the amount of the claim not used to offset  
37 the taxes under this title forward for not more than five taxable years'  
38 income tax liability.

39 ~~G.~~ **H.** The maximum credit that a taxpayer may claim under this section  
40 is five hundred thousand dollars in a taxable year.

41 Sec. 18. Section 43-1081.01, Arizona Revised Statutes, is amended to  
42 read:

43 43-1081.01. Credit for agricultural pollution control equipment

44 A. A credit is allowed against the taxes imposed by this title for  
45 expenses that a taxpayer, involved in the commercial production of livestock,



1 livestock products or agricultural, horticultural, viticultural or  
 2 floricultural crops or products, incurred during the taxable year to purchase  
 3 tangible personal property that is primarily used in the taxpayer's trade or  
 4 business in this state to control or prevent pollution. The amount of the  
 5 credit is equal to twenty-five per cent of the cost of the real or personal  
 6 property. The maximum credit that a taxpayer may claim under this section is  
 7 twenty-five thousand dollars in a taxable year.

8 **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
 9 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

10 ~~B.~~ C. Property that qualifies for the credit under this section  
 11 includes the portion of a structure, building, installation, excavation,  
 12 machine, equipment or device and any attachment or addition to or  
 13 reconstruction, replacement or improvement of that property that is directly  
 14 used, constructed or installed in this state to prevent, monitor, control or  
 15 reduce air, water or land pollution.

16 ~~C.~~ D. Amounts that qualify for a credit under this section must be  
 17 includible in the taxpayer's adjusted basis for the property. The adjusted  
 18 basis of any property with respect to which the taxpayer has claimed a credit  
 19 shall be reduced by the amount of credit claimed with respect to that asset.  
 20 This credit does not affect the deductibility for depreciation or  
 21 amortization of the remaining adjusted basis of the asset.

22 ~~D.~~ E. Co-owners of a business, including partners in a partnership  
 23 and shareholders of an S corporation, as defined in section 1361 of the  
 24 internal revenue code, may each claim only the pro rata share of the credit  
 25 allowed under this section based on the ownership interest. The total of the  
 26 credits allowed all such owners may not exceed the amount that would have  
 27 been allowed a sole owner.

28 ~~E.~~ F. If the allowable tax credit exceeds the taxes otherwise due  
 29 under this title on the claimant's income, or if there are no taxes due under  
 30 this title, the amount of the claim not used to offset the taxes under this  
 31 title may be carried forward to the next five consecutive taxable years as a  
 32 credit against subsequent years' income tax liability.

33 ~~F.~~ G. A taxpayer who claims a credit for pollution control equipment  
 34 under this section shall not claim a credit under section 43-1081 for the  
 35 same equipment or expense.

36 Sec. 19. Section 43-1081.02, Arizona Revised Statutes, is amended to  
 37 read:

38 43-1081.02. Credit for taxpayers participating in agricultural  
 39 preservation district

40 A. For taxable years beginning from and after December 31, 2000 and  
 41 ending before January 1, 2006, a credit is allowed in lieu of any other  
 42 deduction or credit against taxes imposed by this title for a taxpayer who  
 43 owns property classified as class two property under section 42-12002 and who  
 44 conveys ownership or development rights of the property to an agricultural



1 preservation district under section 48-5702. Except as provided in  
2 subsection ~~B~~-C of this section, the amount of the credit is either:

3 1. The appraised value of the property if the taxpayer conveys the  
4 ownership of the property to the district.

5 2. The difference between the appraised value of the undeveloped land  
6 and the appraised value of the land for development purposes if the taxpayer  
7 conveys the development rights of the property to the district.

8 **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
9 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

10 ~~B~~-C. To receive a tax credit under this section, a taxpayer must  
11 apply to the agricultural preservation district, on a form prescribed by the  
12 district, on or before January 15 following the calendar year in which the  
13 conveyance or close of escrow occurred. On or before February 15, the  
14 district shall review and determine the qualification for and amount of the  
15 credit for each taxpayer and issue a certificate to each qualifying applicant  
16 stating the appraisal amount and the amount of the credit. The taxpayer  
17 shall claim the credit on the next tax return filed after receiving the  
18 certificate from the district. The district shall not certify tax credits  
19 under this section in any calendar year exceeding thirty-three thousand  
20 dollars. If qualifying applications exceed thirty-three thousand dollars,  
21 the district shall proportionately reduce the amount of the credit awarded to  
22 each taxpayer.

23 ~~C~~-D. Co-owners of the property, including partners in a partnership  
24 and shareholders of an S corporation, as defined in section 1361 of the  
25 internal revenue code, may each claim only the pro rata share of the credit  
26 allowed under this section based on the ownership interest. The total of the  
27 credits allowed all such owners may not exceed the amount that would have  
28 been allowed a sole owner.

29 ~~D~~-E. If the allowable tax credit exceeds the taxes due under this  
30 title on the claimant's income, or if there are no taxes due under this  
31 title, the amount of the claim not used to offset the taxes under this title  
32 shall be paid in the same manner as a refund granted under section 42-1118.  
33 Refunds made pursuant to this section are subject to setoff under section  
34 42-1122.

35 Sec. 20. Section 43-1082, Arizona Revised Statutes, is amended to  
36 read:

37 **43-1082. Credit for construction materials incorporated into**  
38 **qualifying facility; definitions**

39 A. A credit is allowed against the tax imposed by this title for new  
40 construction materials incorporated into a qualifying facility located  
41 entirely within this state, construction of which is begun on or after  
42 January 1, 1994 and completed on or before December 31, 1999. The credit  
43 shall be computed as five per cent of the purchase price of the materials.  
44 The credit shall be claimed in the taxable year in which the qualified  
45 facility receives a certificate of occupancy.

1           B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
2           THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

3           ~~B.~~ C. Co-owners of a business, including partners in a partnership  
4           and shareholders of an S corporation, as defined in section 1361 of the  
5           internal revenue code, may each claim only the pro rata share of the credit  
6           allowed under this section based on the ownership interest, except that  
7           partners in a partnership and members in a limited liability company may  
8           allocate among themselves any credit for construction materials that are  
9           incorporated into a facility that is predominantly used for direct broadcast  
10          satellite television or data transmission services in any proportion stated  
11          in their partnership or operating agreement. The total of the credits  
12          allowed all such owners may not exceed the amount that would have been  
13          allowed a sole owner.

14          ~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due  
15          under this title on the claimant's income, or if there are no taxes due under  
16          this title, the taxpayer may carry the amount of the claim not used to offset  
17          the taxes under this title forward for not more than five taxable years'  
18          income tax liability.

19          ~~D.~~ E. The department shall prescribe a form to be filed in the year  
20          the credit arises by a partnership or limited liability company that  
21          allocates the credit among its partners or members. The form constitutes an  
22          election by the business as to the proportion of the credit allocable to each  
23          of the specific owners. The election is irrevocable.

24          ~~E.~~ F. For THE purposes of this section:

25           1. "Construction materials" means tangible personal property  
26           incorporated into and permanently affixed to the taxpayer's qualifying  
27           facility other than materials exempt from taxation pursuant to section  
28           42-5061 or 42-5159, subsection B.

29           2. "Direct broadcast satellite television or data transmission  
30           services" means either:

31           (a) Receiving, converting, processing, storing or transmitting  
32           telecommunications information by a business that operates pursuant to 47  
33           Code of Federal Regulations parts 25 and 100.

34           (b) Transmitting telecommunications information to a business that  
35           operates pursuant to 47 Code of Federal Regulations parts 25 and 100 if the  
36           transmitting meets the requirements of section 42-5061, subsection B,  
37           paragraph 16, subdivision (b).

38           3. "Purchase price" means either the direct cost of materials  
39           purchased by the taxpayer from a supplier for incorporation into the  
40           qualifying facility, or the direct cost of materials paid by a contractor for  
41           incorporation into the taxpayer's qualifying facility.

42           4. "Qualifying facility" means a new building or structure, or  
43           expansion of an existing building or structure, located entirely within this  
44           state, predominantly used for manufacturing, fabricating, mining, refining,  
45           metallurgical operations, direct broadcast satellite television or data

transmission services or research and development as described in section 43-1168, and which has a total cost of construction in excess of five million dollars.

Sec. 21. Section 43-1083, Arizona Revised Statutes, is amended to read:

43-1083. Credit for solar energy devices

A. A credit is allowed against the taxes imposed by this title for each resident who is not a dependent of another taxpayer for installing a solar energy device, as defined in section 42-5001, during the taxable year in the taxpayer's residence located in this state. The credit is equal to twenty-five per cent of the cost of the device.

B. The maximum credit in a taxable year may not exceed one thousand dollars. The person who provides the solar energy device shall furnish the taxpayer with an accounting of the cost to the taxpayer. A taxpayer may claim the credit under this section only once in a tax year and may not cumulate over different tax years tax credits under this section exceeding, in the aggregate, one thousand dollars for the same residence.

C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~E.~~ D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset taxes under this title may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

~~D.~~ E. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

~~E.~~ F. The credit allowed under this section is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the solar energy device under section 167 of the internal revenue code.

~~F.~~ G. To qualify for the credit under this section, the solar energy device and its installation shall meet the requirements of title 44, chapter 11, article 11.

~~G.~~ H. A solar hot water heater plumbing stub out that was installed by the builder of a house or dwelling unit before title was conveyed to the taxpayer does not qualify for a credit under this section, but the taxpayer may claim a credit for the device under section 43-1090 or 43-1176 under the circumstances, conditions and limitations prescribed by section 43-1090, subsection ~~C~~ D or 43-1176, subsection C, as applicable.

Sec. 22. Section 43-1084, Arizona Revised Statutes, is amended to read:

43-1084. Credit for agricultural water conservation system

A. A credit is allowed against the taxes imposed by this title for expenses that the taxpayer incurred during the taxable year to purchase and

1 install an agricultural water conservation system in this state. The amount  
2 of the credit is equal to seventy-five per cent of the qualifying expenses.

3 ~~B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER~~  
4 ~~THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.~~

5 ~~B.-~~ C. To qualify for the credit under this section:

6 1. The agricultural water conservation system must be primarily  
7 designed to substantially conserve water on land that is used by the taxpayer  
8 or the taxpayer's tenant to:

9 (a) Produce crops, fruits or other agricultural products.

10 (b) Raise, harvest or grow trees.

11 (c) Sustain livestock.

12 2. The expense must be consistent with a conservation plan that the  
13 taxpayer has filed and that is in effect with the United States department of  
14 agriculture soil conservation service.

15 ~~E.-~~ D. Co-owners of the land on which the water conservation system is  
16 installed, including partners in a partnership and shareholders of an S  
17 corporation, as defined in section 1361 of the internal revenue code, may  
18 each claim only the pro rata share of the credit allowed under this section  
19 based on the ownership interest. The total of the credits allowed all such  
20 owners may not exceed the amount that would have been allowed a sole owner.

21 ~~D.-~~ E. If the allowable tax credit exceeds the taxes otherwise due  
22 under this title on the claimant's income, or if there are no taxes due under  
23 this title, the taxpayer may carry the amount of the claim not used to offset  
24 the taxes under this title forward for not more than five taxable years'  
25 income tax liability.

26 ~~E.-~~ F. The credit allowed by this section is in lieu of any deduction  
27 for such expenses allowed by the internal revenue code and included under  
28 section 43-1042 in computing taxable income.

29 Sec. 23. Section 43-1085, Arizona Revised Statutes, is amended to  
30 read:

31 43-1085. Credit for solar energy devices: commercial and  
32 industrial applications

33 A. For taxable years beginning from and after December 31, 2005  
34 through December 31, 2012, a credit is allowed against the taxes imposed by  
35 this title for a taxpayer who is either:

36 1. Installing one or more solar energy devices, as defined in section  
37 42-5001 and certified pursuant to section 41-1510.01, during the taxable year  
38 for commercial, industrial or any other nonresidential application in the  
39 taxpayer's facility located in this state.

40 2. The third party organization that financed, installed or  
41 manufactured the solar energy device that qualifies for the credit under  
42 paragraph 1 ~~of this subsection~~ if the taxpayer or an entity exempt from  
43 taxation under chapter 12 of this title who otherwise would qualify for this  
44 credit transfers the credit on a form prescribed by the department to the  
45 third party organization.

1 B. The amount of the credit is equal to ten per cent of the installed  
2 cost of the device.

3 C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
4 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

5 ~~E.~~ D. The person who provides or installs the device shall furnish  
6 the taxpayer with an accounting of the cost to the taxpayer.

7 ~~D.~~ E. The taxpayer may not cumulate total tax credits under this  
8 section exceeding twenty-five thousand dollars with respect to the same  
9 building in the same year or fifty thousand dollars in total credits in any  
10 year.

11 ~~E.~~ F. If the allowable credit exceeds the taxes otherwise due under  
12 this title on the claimant's income, or if there are no taxes due under this  
13 title, the amount of the claim not used to offset taxes under this title may  
14 be carried forward for not more than five consecutive taxable years as a  
15 credit against subsequent years' income tax liability.

16 ~~F.~~ G. Co-owners of a business, including partners in a partnership  
17 and shareholders of an S corporation, as defined in section 1361 of the  
18 internal revenue code, may each claim only the pro rata share of the credit  
19 allowed under this section based on the ownership interest or financial  
20 investment in the system. The total of the credits allowed all such owners  
21 may not exceed the amount that would have been allowed a sole owner.

22 Sec. 24. Section 43-1086, Arizona Revised Statutes, is amended to  
23 read:

24 43-1086. Credit for donation to the military family relief fund

25 A. For taxable years beginning from and after December 31, 2007  
26 through December 31, 2012, a credit is allowed against the taxes imposed by  
27 this title for cash contributions made by a taxpayer during the taxable year  
28 to the military family relief fund established by section 41-608.04. The  
29 amount of the credit is the lowest of the following amounts, as applicable:

30 1. The total amount of contributions to the fund by the taxpayer  
31 during the taxable year.

32 2. Two hundred dollars of contributions during the taxable year by a  
33 taxpayer filing as a single individual or a head of household.

34 3. Four hundred dollars of contributions during the taxable year by a  
35 married couple filing a joint return.

36 4. THE AMOUNT OF the taxpayer's tax liability for the taxable year  
37 THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

38 B. A husband and wife who file separate returns for a taxable year in  
39 which they could have filed a joint return may each claim only one-half of  
40 the tax credit that would have been allowed on a joint return.

1           Sec. 25. Section 43-1087, Arizona Revised Statutes, is amended to  
2 read:

3           43-1087. Credit for employment of temporary assistance for  
4                           needy families recipients

5           A. A credit is allowed against the taxes imposed by this title for net  
6 increases in qualified employment by the taxpayer of recipients of temporary  
7 assistance for needy families as defined in section 46-101 who are residents  
8 of this state. The amount of the credit is equal to the sum of the  
9 following:

10           1. One-fourth of the taxable wages paid to each employee in qualified  
11 employment positions, not to exceed five hundred dollars per qualified  
12 employment position, in the first year or partial year of employment. Wages  
13 that were subsidized as provided by section 46-299 shall not be included.

14           2. One-third of the taxable wages paid to each employee in qualified  
15 employment positions, not to exceed one thousand dollars per qualified  
16 employment position, in the second year of continuous employment. Wages that  
17 were subsidized as provided by section 46-299 shall not be included.

18           3. One-half of the taxable wages paid to each employee in qualified  
19 employment positions, not to exceed one thousand five hundred dollars per  
20 qualified employment position, in the third year of continuous  
21 employment. Wages that were subsidized as provided by section 46-299 shall  
22 not be included.

23           B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
24 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

25           ~~B.~~ C. The credit allowed in this section is in lieu of any wage  
26 expense deduction taken for state tax purposes.

27           ~~C.~~ D. To qualify for a credit under this section:

28           1. All of the employees with respect to whom a credit is claimed must  
29 reside in this state and must be recipients of temporary assistance for needy  
30 families as defined in section 46-101 at the time the employee is hired.

31           2. A qualified employment position must meet all of the following  
32 requirements:

33           (a) The position must be classified as full-time employment.

34           (b) The employment must include health insurance coverage for the  
35 employee if the employer offers this coverage for employees who are not  
36 recipients of temporary assistance for needy families.

37           (c) The employer must pay compensation at least equal to the minimum  
38 wage or a wage comparable to that paid to employees who are not receiving  
39 temporary assistance for needy families based on the employee's training,  
40 skills and job classification.

41           (d) The employee must have been employed for at least ninety days  
42 during the first taxable year. An employee who is hired during the last  
43 ninety days of the taxable year shall be considered a new employee during the  
44 next taxable year. Periods for which the employee's wages were subsidized as  
45 provided by section 46-299 shall not be included as periods of employment.

(e) The employee was not employed by the taxpayer within twelve months before the current date of hire.

(f) The employee position is not eligible for any other employment credit pursuant to this title based on wages paid.

~~D.~~ E. The net increase in the number of qualified employment positions shall be determined by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year based on the taxpayer's report to the department of economic security for unemployment purposes.

~~E.~~ F. If the allowable tax credit exceeds the income taxes otherwise due on the claimant's income, the amount of the claim not used as an offset against income taxes may be carried forward as a tax credit against subsequent years' income tax liability for the period, not to exceed five consecutive taxable years.

~~F.~~ G. Co-owners of a business, including partners in a partnership and shareholders of an S corporation as defined in section 1361 of the internal revenue code, may claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all the owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

~~G.~~ H. The department may adopt rules necessary for the administration of this section.

Sec. 26. Section 43-1088, Arizona Revised Statutes, is amended to read:

43-1088. Credit for contribution to charitable organization that provides assistance to the working poor: definitions

A. For taxable years beginning from and after December 31, 1997, a credit is allowed against the taxes imposed by this title for voluntary cash contributions made by the taxpayer during the taxable year to a qualifying charitable organization as determined pursuant to subsection ~~F~~ G of this section, but not exceeding:

1. Two hundred dollars in any taxable year for a single individual or a head of household.

2. Three hundred dollars in taxable year 2005 for a married couple filing a joint return.

3. Four hundred dollars in taxable year 2006 and any subsequent TAXABLE year for a married couple filing a joint return.

B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~B.~~ C. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under



1 this title, the taxpayer may carry forward the amount of the claim not used  
2 to offset the taxes under this title for not more than five consecutive  
3 taxable years' income tax liability.

4 ~~D.~~ E. The credit allowed by this section is in lieu of a deduction  
5 pursuant to section 170 of the internal revenue code and taken for state tax  
6 purposes.

7 ~~E.~~ F. Taxpayers taking a credit authorized by this section shall  
8 provide the name of the qualifying charitable organization and the amount of  
9 the contribution to the department of revenue on forms provided by the  
10 department.

11 ~~F.~~ G. The credit under this section applies only to contributions to  
12 qualifying charitable organizations that exceed the total amount deducted  
13 pursuant to section 170 of the internal revenue code in the taxpayer's  
14 baseline year. The taxpayer's baseline year is:

15 1. The 1996 taxable year if the taxpayer deducted charitable  
16 contributions pursuant to section 170 of the internal revenue code in the  
17 1996 taxable year.

18 2. If the taxpayer did not deduct charitable contributions pursuant to  
19 section 170 of the internal revenue code in the 1996 taxable year, the  
20 taxpayer's baseline year is the first taxable year after 1996 that the  
21 taxpayer deducted charitable contributions pursuant to section 170 of the  
22 internal revenue code.

23 ~~G.~~ H. A qualifying charitable organization shall provide the  
24 department of revenue with a written certification that it meets all criteria  
25 to be considered a qualifying charitable organization. The organization  
26 shall also notify the department of any changes that may affect the  
27 qualifications under this section. The department shall compile and make  
28 available to the public a list of the qualifying organizations.

29 ~~H.~~ I. For the purposes of this section:

30 1. "Low income residents" means persons whose household income is less  
31 than one hundred fifty per cent of the federal poverty level.

32 2. "Qualifying charitable organization" means a charitable  
33 organization that is exempt from federal income taxation under section  
34 501(c)(3) of the internal revenue code or is a designated community action  
35 agency that receives community services block grant program monies pursuant  
36 to 42 United States Code section 9901. The organization must spend at least  
37 fifty per cent of its budget on services to residents of this state who  
38 receive temporary assistance for needy families benefits or low income  
39 residents of this state and their households. Taxpayers choosing to make  
40 donations through an umbrella charitable organization that collects donations  
41 on behalf of member charities shall designate that the donation be directed  
42 to a member charitable organization that would qualify under this section on  
43 a stand-alone basis.

44 3. "Services" means cash assistance, medical care, child care, food,  
45 clothing, shelter, job placement and job training services or any other



1 assistance that is reasonably necessary to meet immediate basic needs and  
2 that is provided and used in this state.

3 Sec. 27. Section 43-1089, Arizona Revised Statutes, is amended to  
4 read:

5 43-1089. Credit for contributions to school tuition  
6 organization: definitions

7 A. A credit is allowed against the taxes imposed by this title for the  
8 amount of voluntary cash contributions made by the taxpayer during the  
9 taxable year to a school tuition organization, but not exceeding:

10 1. Five hundred dollars in any taxable year for a single individual or  
11 a head of household.

12 2. Eight hundred twenty-five dollars in taxable year 2005 for a  
13 married couple filing a joint return.

14 3. One thousand dollars in taxable year 2006 and any subsequent  
15 TAXABLE year for a married couple filing a joint return.

16 B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
17 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

18 ~~B.~~ C. A husband and wife who file separate returns for a taxable year  
19 in which they could have filed a joint return may each claim only one-half of  
20 the tax credit that would have been allowed for a joint return.

21 ~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due  
22 under this title on the claimant's income, or if there are no taxes due under  
23 this title, the taxpayer may carry the amount of the claim not used to offset  
24 the taxes under this title forward for not more than five consecutive taxable  
25 years' income tax liability.

26 ~~D.~~ E. The credit allowed by this section is in lieu of any deduction  
27 pursuant to section 170 of the internal revenue code and taken for state tax  
28 purposes.

29 ~~E.~~ F. The tax credit is not allowed if the taxpayer designates the  
30 taxpayer's contribution to the school tuition organization for the direct  
31 benefit of any dependent of the taxpayer.

32 ~~F.~~ G. A school tuition organization that receives a voluntary cash  
33 contribution pursuant to subsection A shall report to the department, in a  
34 form prescribed by the department, by February 28 of each year the following  
35 information:

36 1. The name, address and contact name of the school tuition  
37 organization.

38 2. The total number of contributions received during the previous  
39 calendar year.

40 3. The total dollar amount of contributions received during the  
41 previous calendar year.

42 4. The total number of children awarded educational scholarships or  
43 tuition grants during the previous calendar year.

44 5. The total dollar amount of educational scholarships and tuition  
45 grants awarded during the previous calendar year.

1           6. For each school to which educational scholarships or tuition grants  
2 were awarded:

3           (a) The name and address of the school.

4           (b) The number of educational scholarships and tuition grants awarded  
5 during the previous calendar year.

6           (c) The total dollar amount of educational scholarships and tuition  
7 grants awarded during the previous calendar year.

8           ~~G.~~ H. For the purposes of this section:

9           1. "Handicapped student" means a student who has any of the following  
10 conditions:

11           (a) Hearing impairment.

12           (b) Visual impairment.

13           (c) Preschool moderate delay.

14           (d) Preschool severe delay.

15           (e) Preschool speech or language delay.

16           2. "Qualified school" means a nongovernmental primary school or  
17 secondary school or a preschool for handicapped students that is located in  
18 this state, that does not discriminate on the basis of race, color, handicap,  
19 familial status or national origin and that satisfies the requirements  
20 prescribed by law for private schools in this state on January 1, 1997.

21           3. "School tuition organization" means a charitable organization in  
22 this state that is exempt from federal taxation under section 501(c)(3) of  
23 the internal revenue code and that allocates at least ninety per cent of its  
24 annual revenue for educational scholarships or tuition grants to children to  
25 allow them to attend any qualified school of their parents' choice. In  
26 addition, to qualify as a school tuition organization the charitable  
27 organization shall provide educational scholarships or tuition grants to  
28 students without limiting availability to only students of one school.

29           Sec. 28. Section 43-1089.01, Arizona Revised Statutes, is amended to  
30 read:

31           43-1089.01. Tax credit: public school fees and contributions:  
32                                   definitions

33           A. A credit is allowed against the taxes imposed by this title for the  
34 amount of any fees or cash contributions made by a taxpayer during the  
35 taxable year to a public school located in this state for the support of  
36 extracurricular activities or character education programs of the public  
37 school, but not exceeding:

38           1. Two hundred dollars for a single individual or a head of household.

39           2. Three hundred dollars in taxable year 2005 for a married couple  
40 filing a joint return.

41           3. Four hundred dollars in taxable year 2006 and any subsequent  
42 TAXABLE year for a married couple filing a joint return.

43           B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER  
44 THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~B.~~ C. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

~~C.~~ D. The credit allowed by this section is in lieu of any deduction pursuant to section 170 of the internal revenue code and taken for state tax purposes.

~~D.~~ E. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

~~E.~~ F. The site council of the public school that receives contributions that are not designated for a specific purpose shall determine how the contributions are used at the school site. If a charter school does not have a site council, the principal, director or chief administrator of the charter school shall determine how the contributions that are not designated for a specific purpose are used at the school site.

~~F.~~ G. A public school that receives fees or a cash contribution pursuant to subsection A of this section shall report to the department, in a form prescribed by the department, by February 28 of each year the following information:

1. The total number of fee and cash contribution payments received during the previous calendar year.

2. The total dollar amount of fees and contributions received during the previous calendar year.

3. The total dollar amount of fees and contributions spent by the school during the previous calendar year.

~~G.~~ H. For the purposes of this section:

1. "Character education programs" means a program described in section 15-719.

2. "Extracurricular activities" means school sponsored activities that require enrolled students to pay a fee in order to participate, including fees for:

(a) Band uniforms.

(b) Equipment or uniforms for varsity athletic activities.

(c) Scientific laboratory materials.

(d) In-state or out-of-state trips that are solely for competitive events. Extracurricular activities do not include any senior trips or events that are recreational, amusement or tourist activities.

Sec. 29. Section 43-1089.02, Arizona Revised Statutes, is amended to read:

43-1089.02. Credit for donation of school site

A. A credit is allowed against the taxes imposed by this title in the amount of thirty per cent of the value of real property and improvements

1 donated by the taxpayer to a school district or a charter school for use as a  
2 school or as a site for the construction of a school.

3 ~~B.~~ **B. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER**  
4 **THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.**

5 ~~B.~~ **C.** To qualify for the credit:

6 1. The real property and improvements must be located in this state.

7 2. The real property and improvements must be conveyed unencumbered  
8 and in fee simple, except that:

9 (a) The conveyance must include as a deed restriction and protective  
10 covenant running with title to the land the requirement that as long as the  
11 donee holds title to the property the property shall only be used as a school  
12 or as a site for the construction of a school, subject to subsection ~~I or J~~  
13 **OR K** of this section.

14 (b) In the case of a donation to a charter school, the donor shall  
15 record a lien on the property as provided by subsection ~~J~~ **K**, paragraph 3 of  
16 this section.

17 3. The conveyance shall not violate section 15-341, subsection D ~~and~~  
18 **OR** section 15-183, subsection ~~V~~ **U**.

19 ~~C.~~ **D.** For purposes of this section, the value of the donated property  
20 is the property's fair market value as determined in an appraisal as defined  
21 in section 32-3601 that is conducted by an independent party and that is paid  
22 for by the donee.

23 ~~D.~~ **E.** If the property is donated by co-owners, including partners in  
24 a partnership and shareholders of an S corporation, as defined in section  
25 1361 of the internal revenue code, each donor may claim only the pro rata  
26 share of the allowable credit under this section based on the ownership  
27 interest. If the property is donated by a husband and wife who file separate  
28 returns for a taxable year in which they could have filed a joint return,  
29 they may determine between them the share of the credit each will claim. The  
30 total of the credits allowed all co-owner donors may not exceed the allowable  
31 credit.

32 ~~E.~~ **F.** If the allowable tax credit exceeds the taxes otherwise due  
33 under this title on the claimant's income, or if there are no taxes due under  
34 this title, the taxpayer may carry the amount of the claim not used to offset  
35 the taxes under this title forward for not more than five consecutive taxable  
36 years' income tax liability.

37 ~~F.~~ **G.** The credit under this section is in lieu of any deduction  
38 pursuant to section 170 of the internal revenue code taken for state tax  
39 purposes.

40 ~~G.~~ **H.** On written request by the donee, the donor shall disclose in  
41 writing to the donee the amount of the credit allowed pursuant to this  
42 section with respect to the property received by the donee.

43 ~~H.~~ **I.** A school district or charter school may refuse the donation of  
44 any property for purposes of this section.

45 ~~I.~~ **J.** If the donee is a school district:

1           1. The district shall notify the school facilities board established  
 2 by section 15-2001 and furnish the board with any information the board  
 3 requests regarding the donation. A school district shall not accept a  
 4 donation pursuant to this section unless the school facilities board has  
 5 reviewed the proposed donation and has issued a written determination that  
 6 the real property and improvements are suitable as a school site or as a  
 7 school. The school facilities board shall issue a determination that the  
 8 real property and improvements are not suitable as a school site or as a  
 9 school if the expenses that would be necessary to make the property suitable  
 10 as a school site or as a school exceed the value of the proposed donation.

11           2. The district may sell any donated property pursuant to section  
 12 15-342, but the proceeds from the sale shall only be used for capital  
 13 projects. The school facilities board shall withhold an amount that  
 14 corresponds to the amount of the proceeds from any monies that would  
 15 otherwise be due the school district from the school facilities board  
 16 pursuant to section 15-2041.

17           ~~J.~~ K. If the donee is a charter school:

18           1. The charter school shall:

19           (a) Immediately notify the sponsor of the charter school by certified  
 20 mail and shall furnish the sponsor with any information requested by the  
 21 sponsor regarding the donation during the ten year period after the  
 22 conveyance is recorded.

23           (b) Notify the sponsor by certified mail, and the sponsor shall notify  
 24 the state treasurer, in the event of the charter school's financial failure  
 25 or if the charter school:

26           (i) Fails to establish a charter school on the property within  
 27 forty-eight months after the conveyance is recorded.

28           (ii) Fails to provide instruction to pupils on the property within  
 29 forty-eight months after the conveyance is recorded.

30           (iii) Establishes a charter school on the property but subsequently  
 31 ceases to operate the charter school on the property for twenty-four  
 32 consecutive months or fails to provide instruction to pupils on the property  
 33 for twenty-four consecutive months.

34           2. The charter school, or a successor in interest, shall pay to the  
 35 state treasurer the amount of the credit allowed under this section, or if  
 36 that amount is unknown, the amount of the allowable credit under this  
 37 section, if any of the circumstances listed in paragraph 1, subdivision (b)  
 38 of this subsection ~~occur~~ OCCURS. If the amount is not paid within one year  
 39 after the treasurer receives notice under paragraph 1, subdivision (b) of  
 40 this subsection, a penalty and interest shall be added, determined pursuant  
 41 to title 42, chapter 1, article 3.

42           3. A tax credit under this section constitutes a lien on the property,  
 43 which the donor must record along with the title to the property to qualify  
 44 for the credit. The amount of the lien is the amount of the allowable credit  
 45 under this section, adjusted according to the average change in the GDP price

deflator, as defined in section 41-563, for each calendar year since the donation, but not exceeding twelve and one-half per cent more than the allowable credit. The lien is subordinate to any liens securing the financing of the school construction. The lien is extinguished on the earliest of the following:

(a) Ten years after the lien is recorded. After that date, the charter school, or a successor in interest, may request the state treasurer to release the lien.

(b) On payment to the state treasurer by the donee charter school, or by a successor in interest, of the amount of the allowable credit under this section, either voluntarily or as required by paragraph 2 of this subsection. After the required amount is paid, the charter school or successor in interest may request the state treasurer to release the lien.

(c) On conveyance of fee simple title to the property to a school district.

(d) On enforcement and satisfaction of the lien pursuant to paragraph 4 of this subsection.

4. The state treasurer shall enforce the lien by foreclosure within one year after receiving notice of any of the circumstances described in paragraph 1, subdivision (b) of this subsection.

5. Subject to paragraphs 3 and 4 of this subsection, the charter school may sell any donated property.

Sec. 30. Section 43-1090, Arizona Revised Statutes, is amended to read:

43-1090. Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer

A. A credit is allowed against the taxes imposed by this title for costs incurred during the taxable year of installing or including in one or more houses or dwelling units located in this state and constructed by the taxpayer one or more:

1. Solar hot water plumbing stub outs. To qualify for the credit, the stub out must:

(a) Include two insulated three-fourths inch copper pipes and at least two pairs of wires for monitoring and control purposes that project from the dwelling roof or other suitable location and that are connected to the domestic hot water transport and storage system.

(b) Be located and configured to allow sufficient solar access and exposure and to allow ready installation of solar water heating devices without further expense or effort to reach, use or serve the domestic hot water system of the house or dwelling UNIT.

2. Electric vehicle recharge outlets. To qualify for the credit, the outlet must be connected to the utility system by a dedicated line that:

(a) Is capable of operating at normal secondary voltages.

(b) Meets applicable local building safety codes.

(c) Is commensurate and consistent with electric vehicle recharging needs and methods.

B. The credit shall not exceed seventy-five dollars for each installation for each separate house or dwelling unit.

C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~C.~~ D. The taxpayer may elect to transfer a credit under this section to a purchaser or transferee of the house or dwelling unit. If the taxpayer elects to transfer the credit, the taxpayer shall deliver to the purchaser or transferee a written statement that the taxpayer has elected not to claim the credit and that the purchaser or transferee may claim the credit, subject to the conditions and limitations prescribed by this section.

~~D.~~ E. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes under this title may be carried forward to the next five consecutive taxable years as a credit against subsequent years' income tax liability.

~~E.~~ F. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

~~F.~~ G. The credit allowed under this section is in lieu of any expenses taken for installing solar stub outs or electric vehicle recharge outlets ~~to reach~~ IN COMPUTING Arizona taxable income.

Sec. 31. Section 43-1090.01, Arizona Revised Statutes, is amended to read:

43-1090.01. Credit for water conservation systems; definition

A. Subject to subsections ~~H and~~ I AND J of this section, for taxable years beginning from and after December 31, 2006 and ending before January 1, 2012, a credit is allowed against the taxes imposed by this title for each resident who is not a dependent of another taxpayer for installing a water conservation system during the taxable year in the taxpayer's residence located in this state. The credit is equal to twenty-five per cent of the cost of the system.

B. The maximum credit in a taxable year may not exceed one thousand dollars. The person who provides the water conservation system shall furnish the taxpayer with an accounting of the cost to the taxpayer. A taxpayer may claim the credit under this section only once in a taxable year and may not cumulate over different taxable years tax credits under this section exceeding, in the aggregate, one thousand dollars for the same residence.

C. THE CREDIT APPLIES AGAINST ONLY THE AMOUNT OF TAX LIABILITY UNDER THIS TITLE THAT EXCEEDS ONE THOUSAND FIVE HUNDRED DOLLARS.

~~C.~~ D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset taxes under this title may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

~~D.~~ E. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

~~E.~~ F. The credit allowed under this section is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the water conservation system under section 167 of the internal revenue code.

~~F.~~ G. To qualify for the credit under this section, a residential graywater system and its installation shall comply with rules that are adopted by the department of environmental quality and that relate to the recovery and disposal of graywater.

~~G.~~ H. A graywater stub out that was installed by the builder of a house or dwelling unit before title was conveyed to the taxpayer does not qualify for a credit under this section.

~~H.~~ I. Beginning from and after December 31, 2006, the department shall receive and evaluate applications that are submitted by taxpayers to receive a water conservation system credit under this section. A taxpayer shall apply for the credit to the department on a form prescribed by the department. The application shall be filed with the department and the department shall issue a receipt to the applicant. The application shall include:

1. The name, address and social security number or federal employer identification number of the applicant.

2. The amount of the cost of the water conservation system and the amount for which the credit is claimed.

3. Any additional information that the department requires.

~~I.~~ J. The department shall review each application under subsection ~~H.~~ I of this section and certify to the taxpayer the amount of the credit that is authorized. The department shall not certify tax credits under this subsection exceeding two hundred fifty thousand dollars for any calendar year. If qualifying applications exceed two hundred fifty thousand dollars, the department shall authorize credits in the order of the date that the applications are received by the department. If an application is received that, if authorized, would require the department to exceed the two hundred fifty thousand dollar limit, the department shall grant the applicant only the remaining credit amount that would not exceed the two hundred fifty thousand dollar limit. After the department authorizes two hundred fifty thousand dollars in tax credits, the department shall deny any subsequent applications that are received in that calendar year. The department shall not authorize any additional tax credits that exceed the two hundred fifty thousand dollar limit even if the amounts that have been certified to any



1 taxpayer were not claimed or a taxpayer otherwise fails to meet the  
2 requirements to claim the additional credit.

3 ~~J.~~ K. The department may verify that a water conservation system has  
4 been installed in the taxpayer's residence.

5 ~~K.~~ L. For the purposes of this section, "water conservation system"  
6 means a system or a series of components or mechanisms that are designed to  
7 provide for the collection of rainwater or residential graywater. Water  
8 conservation system includes a system that is capable of storing rainwater or  
9 residential graywater for future use and reusing the collected water for the  
10 same residential property.

11 Sec. 32. Delayed effective date

12 A. Section 43-1074.01, Arizona Revised Statutes, as amended by Laws  
13 2008, chapter 290, section 2 and this act, is effective for taxable years  
14 beginning from and after December 31, 2009.

15 B. Section 43-1074.01, Arizona Revised Statutes, as added by Laws  
16 2008, chapter 290, section 4 and amended by this act, is effective for  
17 taxable years beginning from and after December 31, 2017.